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Supreme Court of the United States

OCTOBER TERM 1977

77-1632

No.

TRUCK DRIVERS LOCAL UNION NO. 807, INTERNATIONAL
BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, HELPERS AND
WAREHOUSEMEN OF AMERICA,

Petitioner,

—against—

THE BOHACK CORPORATION,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

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TRUCK DRIVERS LOCAL UNION NO. 807,
INTERNATIONAL BROTHERHOOD OF TEAMSTERS,
CHAUFFEURS, HELPERS AND WAREHOUSEMEN
OF AMERICA,

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-against-

THE BOHACK CORPORATION,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT.

Truck Drivers Local Union No. 807, I.B.T.,
Petitioner, respectfully prays that a writ of
certiorari issue to review the judgment of the
United States Court of Appeals for the Second
Circuit in this case.

OPINIONS BELOW.

The initial opinion of the court of
appeals (App. A, infra, pp. 1a-42a), dated
August 9, 1976, is reported at 541 F. 2d 312.
That decision remanded the following issues
for determination by the bankruptcy referee:

"(1) whether to affirm the contract
or whether the debtor has so con-
formed to the contract as to make
it binding. See In re Public
Ledger, Inc., 161 F.2d 762, 767
(3rd Cir. 1947), cited with
approval in REA Express, Inc.,
supra. 523 F.2d at 170; (2)
whether to grant the debtor's
petition to reject the agree-
ment as onerous, adhering to
our admonition in Keven Steel
to 'move cautiously in allowing
rejection of a collective bar-
gaining agreement,' 519 F.2d at

707; and (3) whether to order
arbitration under its terms in
any event, and on what issue."
[Emphasis added].

The bankruptcy court on May 28, 1976, had
rejected the labor agreement between The
Bohack Corporation ("Bohack") and Petitioner
(App. B., infra, pp. 43a-44a). On October
15, 1976, the bankruptcy referee issued an
order directing the Petitioner to submit its
grievances with Bohack to arbitration. (App.
C, infra, pp. 45a-46a). On October 21, 1976,
the referee signed a second order setting
forth additional issues to be submitted to
arbitration (App. D, infra, pp. 47a-51a).
The opinion of the district court, on appeal
from the above bankruptcy court orders (App.
E, infra, pp. 52a-98a), is reported at 431 F.
Supp. 646. The court of appeals affirmed
on the opinion of Chief Judge Mishler of the
district court. The per curiam opinion of

the court of appeals (App. F, infra, pp. 99a-100a) is reported at 567 F. 2d 237.

JURISDICTION

The judgment of the court of appeals, (App. G, infra, pp. 101a-102a) was entered on December 14, 1977. A timely petition for rehearing was denied on February 16, 1978 (App. H, infra, pp. 103a-104a). The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. Does a bankruptcy court have authority to reject a collective bargaining agreement which the debtor-in-possession ("DIP") recognized and applied for almost one (1) year following the filing of the Chapter XI petition.

2. Does a bankruptcy court have, pursuant to Rule 919(b) of the Rules of Bankruptcy Procedure, the authority to disapprove submission of an arbitrable dispute to a labor agreement's grievance procedure.

3. Does a bankruptcy court have, pursuant to 301(a) of the Labor Management Relations Act, the authority to determine which of two contractual grievance forums shall hear and decide a grievance.

STATUTES INVOLVED

This case involves the interpretation and application of

1. Section 313(1) of the Bankruptcy Act, 11 U.S.C. 713(1), and Rule 919(b) of the Rules of Bankruptcy Procedure.

2. Sections 8(d), 203(d) and 301(a) of the Labor Management Relations Act ("LMRA"), 29 U.S.C. 158(d), 173(d) and 185(a). All of

these statutes are printed in Appendix I, infra., pp. 105a-111a.

STATEMENT OF CASE

On July 30, 1974, Bohack filed a Chapter XI petition under the Bankruptcy Act, 11 U.S.C. 701 et. seq. The bankruptcy referee, that same day, issued an order which permitted Bohack to continue its business operations as a DIP. At that time Bohack owned or leased approximately 140 retail supermarkets and a warehouse-distribution terminal servicing two boroughs of New York City, as well as Nassau and Suffolk Counties.

The tractors and trailers used by these drivers were owned by Truck Fleets of New York, Inc. ("Truck Fleets") and leased to Bohack (R. 432a). Truck Fleets was a wholly owned subsidiary of Bohack and the sole source of business for it (R. 432a-433a).

1 For the convenience of the Court, all page references in this petition will be to the Appendix filed by Petitioner in the court of appeals and will be designated as (R. ...).

During the period between July 30, 1974 and December 15, 1974 the DIP's delivery operations continued unchanged from what they had been prior to the Chapter XI petition, including the continued employment of the same truck drivers. On December 16, 1974 the DIP closed its produce, dairy and bakery warehouses and began receiving that merchandise from Shopwell, Inc. ("Shopwell"), a food wholesaler with warehouse facilities in the Bronx, New York. Approximately sixty (60) of Bohack's drivers lost their jobs as a result of Bohack permitting Shopwell

2 Local 852, I.B.T. represented the warehousemen in the produce, grocery and dairy warehouses. The meat and delicatessen warehouse employees were covered by a labor agreement between Bohack and Local 174 of the Amalgamated Butchers of North America (R. 357a). All of these warehouse buildings were located in the same terminal complex known as Bohack Square.

drivers to deliver the produce, dairy and bakery items to Bohack's retail stores (R. 120a)³. The Shopwell drivers were operating the same tractors and trailers that Truck Fleets had been leasing to Bohack. As of December 16, 1974, Truck Fleets leased approximately 32 tractors and 44 trailers to Shopwell in order to complete these deliveries (R. 434a).

On December 16, 1974, Petitioner filed a grievance with the New York City Joint Area Local Committee ("Committee") pursuant

³ Subsequent to the filing of the Chapter XI petition the DIP and Shopwell entered into an agreement whereby Shopwell was to provide all the merchandise, sold by it to the DIP, F.O.B. the Shopwell warehouse (R. 467a). Although, under the terms of that agreement, the DIP was to pick up that merchandise at Shopwell's warehouse the DIP laid off 60 of its own drivers and permitted Shopwell employees to make deliveries to its stores.

to Article 45, Section 1 of the National Master Freight Agreement and New Jersey-New York Area Supplement thereto ("Agreement")⁴. The Committee has jurisdiction over such disputes and grievances in accordance with the procedure set forth in Article 46 of the Agreement (R. 41a)⁵. Petitioner contended that DIP's failure to use its own drivers was a controversy that was subject to the Agreement's grievance procedure (R. 11a).

During January, 1975, the DIP's decision was to discontinue warehousing all groceries at Bohack Square and, thereafter, its remaining drivers picked up groceries for the

⁴ Bohack and Petitioner were signatories to the Agreement. The term thereof was from July 1, 1973 to March 31, 1976.

⁵ Article 46, Section 1 provides that grievances, involving "any controversy that might arise," that are not adjusted between the parties to the Agreement are to be submitted to the Committee for settlement (R. 42a).

retail stores from two grocery wholesalers, Bozzuto's, Inc. ("Bozzuto's"), located in
Cheshire, Conn.⁶ and Filigree Foods, Inc. ("Filigree"), located in Totowa, New Jersey. The trailers carrying these groceries were brought back to Bohack Square and dropped in the parking area. The following day the groceries were delivered by the DIP's truck drivers to the retail stores (R. 377a-378a).

During May, 1975, the DIP was unable to continue purchasing groceries from Filigree because it too had filed a Chapter XI petition. The grocery volume that formerly was obtained from Filigree was, thereafter, split between Bozzuto's and

⁶ For approximately three months prior to Bohack's Chapter XI petition its drivers picked up some groceries from Bozzuto's (R. 365a). Those groceries were returned to Bohack Square and unloaded into the grocery warehouse (R. 377a-378a).

Krasdale Foods, Inc. ("Krasdale"), another grocery wholesaler located in the Bronx, New York. The Krasdale volume was delivered directly to the retail stores by Krasdale's drivers (R. 378a-379a). The increased Bozzuto volume continued to be delivered by the DIP's drivers from Cheshire to the retail stores.

The Committee rendered an award on Petitioner's grievance on May 16, 1975. It instructed the DIP to "cease and desist forthwith from having its bargaining unit work subcontracted out" (R. 56a). The DIP totally disregarded this mandate. It altered its grocery agreement with Bozzuto in early June, 1975. Thereafter, the DIP's drivers no longer picked up those groceries. Bozzuto's drivers delivered the grocery trailers to Bohack Square and the DIP's

drivers delivered the loads to retail supermarkets. This change in operations caused a further substantial reduction in the DIP's, driver, seniority list and their work opportunity (R. 383a).

On or about May 27, 1975, Petitioner moved to confirm the Committee's May 16, 1975 award in a proceeding instituted in the Supreme Court of the State of New York, County of Queens. On or about June 5, 1975 the DIP removed that proceeding to the District Court for the Eastern District of New York. The suit was pending when the DIP, still refusing to obey the order, laid off a third group of drivers and advised Petitioner of its intention to discharge its remaining truck drivers. At this point, the Petitioner called a strike against the DIP and began picketing its

retail supermarkets. The DIP, on June 30, 1975, requested and obtained, from the bankruptcy court, a preliminary injunction prohibiting the Petitioner's strike activity.⁷ With a broad injunction order in hand--thereby effectively disarming the Petitioner--the DIP, on July 18, 1975, notified its remaining 32 truck drivers that they were terminated, effective the end of that day (R.73a). Also on that date, the DIP moved, by order to show cause, to have the bankruptcy court reject the Agreement (R. 59a-62a).

On Monday, July 21, 1975, Bozzuto drivers began delivering groceries

⁷ The bankruptcy court based its jurisdiction, to grant the DIP its requested injunctive relief, on section 301 of the LMRA, 29 U.S.C. §185. The district court vacated that injunction on the ground that a bankruptcy court does not have jurisdiction to grant injunctive relief in labor disputes. The Second Circuit expressed doubt whether "a Bankruptcy Judge ever has [such] jurisdiction," 541 F. 2d at 318, but did not otherwise confront the issue.

directly from Cheshire to the DIP's retail markets and Shopwell drivers started delivering meat directly from its warehouse to those stores (R. 383a, 386a). After July 18, 1975 the DIP received all of its deliveries on Truck Fleet equipment, bearing the DIP's markings, and operated by Bozzuto⁸ and Shopwell drivers.

Petitioner appealed to the district court to lift the bankruptcy court's preliminary injunction; it also filed a separate action under Section 301(a) LMRA seeking specific performance of

⁸ During September, 1975 the DIP discontinued using Shopwell as its wholesaler for produce, meat, dairy and bakery. From September until March 31, 1976-the expiration date of the Agreement-the DIP purchased those items from Hills Supermarkets, Inc. ("Hills"). For that period those deliveries were made to the DIP's stores by use of Truck Fleet tractors and trailers operated by Hills drivers.

the Agreement and an order compelling submission of the dispute to the Agreement's grievance procedure (R. 67a). The DIP's answer to the new complaint included a counterclaim alleging that bankruptcy court approval was necessary before these disputes could be submitted to the Agreement's grievance procedure (R. 72a-77a). That counterclaim expressly acknowledged assumption of the Agreement by the DIP and sought a permanent injunction compelling the Petitioner to specifically perform in accordance with its terms.

These actions were consolidated and disposed of by the district court: The Petitioner's original petition to confirm the Committee's award, as well as its subsequent suit to compel arbitration, was dismissed; the bankruptcy court's preliminary

injunction was vacated, but a new temporary⁹ restraining order took its place; and the issue whether the DIP should be allowed to arbitrate was remanded to the bankruptcy court for resolution.

In a consolidated action before the Second Circuit, the Petitioner appealed its petition to enforce the Committee's award and invoked the circuit court's mandamus jurisdiction to direct the district court (1) to dissolve the strike injunction; (2) to stay the remand to the bankruptcy

⁹ The DIP submitted a proposed temporary restraining order to the district court on August 1, 1975 (R. 78a-79a). The temporary restraining order was signed on November 19, 1975. It "restrained and enjoined [Petitioner] from conducting a strike, walkout or work stoppage or establishing a picket line at [DIP's] various places of business or at the premises of any other party or person doing business with [DIP]." This order was vacated by the Second Circuit in Truck Drivers Local 807 v. Bohack, supra.

court; and (3) to compel the grievance procedure provided for in the Agreement.

Petitioner's only success was achieved by convincing the Second Circuit that the¹⁰ strike injunction should be dissolved.

The circuit court remanded the following issues for determination by the bankruptcy court:

- (1) whether to affirm the Agreement, or whether the DIP has so conformed to the Agreement as to make it binding,
- (2) whether to grant the DIP's petition to reject the Agreement as onerous, and
- (3) whether to order arbitration under the Agreement's terms in any event, and on what issues.

¹⁰ Since neither the bankruptcy court nor the district court had ordered the DIP to arbitrate, the district court's injunction had been issued without jurisdiction and was therefore void. Boys Markets, Inc. v. Retail Clerks Local 770, 398 U.S. 235 (1970).

For the services performed by its drivers during the period between July 30, 1974 and July 18, 1975 the DIP complied with the economic terms and conditions of the Agreement. The wage rates were paid, dues were checked off and remitted to ¹¹ Petitioner, paid vacation was received, seniority was recognized, health and pension contributions were paid and both Petitioner and DIP participated in grievance discussions and proceedings (R. 255a, 346a-347a). As a direct result of DIP terminating those drivers they lost their seniority, health and pension coverage, as

¹¹ The accrued vacation credits earned by the drivers during the pre Chapter XI period were totally recognized and the entire benefit paid by the DIP to each eligible driver. This included an additional week's pay for each driver with 15 years or more of seniority with Bohack and DIP and 2 weeks pay for a driver with 20 or more years of such service (R. 49a).

well as the other benefits set forth in the Agreement (R. 335a).

The bankruptcy court on May 28, 1976, adjudged that the Agreement's terms constituted an onerous burden to the DIP "and a peril to its rehabilitation efforts"(R. 113a). In his orders of October 15 and 21, 1976, the bankruptcy referee set forth the issues to be decided by arbitration and the bankruptcy procedure to be followed by DIP-Petitioner in selecting the arbitrator. (R. 114a, 115a-116a).

On April 21, 1977 the district court affirmed the bankruptcy referee's rejection of the Agreement, and so much of the October 21, 1976 order of that court which directed the arbitrator to decide:

a) The extent of damages to be recovered by the discharged employees upon the rejection of the labor contract between Bohack and [Petitioner].

b) The amount and extent of pension, health insurance, welfare, vacation benefits and the value of seniority of each employee effected by said rejection of the employment contract.

c) The amount of mitigation of such damages by the reason of the subsequent employment of each employee or the receipt of unemployment insurance paid to said employee.

The remainder of the bankruptcy referee's October 21, 1976 order was reversed by the district court. The district court's order directed that the arbitration procedure should be in accordance with the Agreement's procedure and not that set forth in Section 26 of the Bankruptcy Act. (R. 137a-142a,

12
150a-151a). The Second Circuit affirmed on the opinion of the district court.

12 Footnote 6 of the district court's Memorandum of Decision does not direct DIP and Petitioner to submit their dispute to the Committee (R. 149a). However, the court did acknowledge that the Petitioner had withdrawn its allegation that DIP violated Article 32 of the Agreement. The issue which the bankruptcy court ordered to be submitted to arbitration in his October 15, 1976 order was:

"Whether truck deliveries of produce, groceries, dairy, meat and bakery products to the [DIP's] stores for the period between December 16, 1974 and March 31, 1976 by persons other than truck drivers employed by the debtor-in-possession violated the [Agreement] i.e., Article 40, Section 4(a); Article 50, Section 2 and paragraph 2 of the rider thereto." The district court reversed and vacated the October 15, 1976 order.

Despite the bankruptcy court's limitation of the dispute to allegations against DIP that are within the Supplement section of the Agreement (R. 37a-55a) and the clear instruction of Articles 45, Section 1 and 46, Section 1 of the Agreement (R. 41a-44a), the district court held that if the DIP disagrees with submitting the dispute to the Committee that "the bankruptcy court will have to determine the appropriate committee for arbitration." (R. 149a)

REASONS FOR GRANTING THE WRIT

The Petition Presents Important Unresolved Issues of Apparent Conflict Between Federal Labor and Bankruptcy Laws

A. Rejection of Debtor's Labor Agreement.

When a debtor is permitted to reorganize under Chapter XI of the Bankruptcy Act, 11 U.S.C. 701 et. seq. and the DIP seeks to reject the debtor's labor agreement-pursuant to Section 313¹³ (1) of the Bankruptcy Act-which for approximately twelve (12) months theretofore the DIP applied to its employees, a conflict arises between the federal labor and bankruptcy laws.

A Chapter XI proceeding permits a financially troubled company to avert collapse and liquidation by affording the debtor an opportunity to continue operation of its business under a self-proposed but judicially approved arrangement with its unsecured creditors. An

¹³ 11 U.S.C. §713(1).

advantage within the reach of such a debtor is the likelihood of the bankruptcy court to reject burdensome executory contracts,¹⁴ including collective bargaining agreements.

The Second Circuit is the first federal appellate court to hold that a DIP can disaffirm a labor agreement as an executory contract. Local 454 v. Kevin Steel Products, Inc., 519 F.2d 698 (2d Cir. 1975). The

¹⁴ An executory contract within the meaning of the Bankruptcy Act has been defined as

"a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other." Countryman, "Executory Contracts in Bankruptcy: Part I," 57 Minn. L. Rev. 439, 460 (1973).

principal had previously found judicial favor but only at the district court level. E. g., In re Overseas National Airways, Inc., 238 F. Supp. 359 (E.D.N.Y. 1965) (dictum); In re Klaber Bros., Inc., 173 F. Supp. 83 (S.D.N.Y. 1959). See also In re Mamie Conti Gowns, Inc., 12 F. Supp. 478 (S.D. N.Y. 1935). The Kevin Steel court reasoned that a DIP as a new judicial entity was not bound to the debtor's labor agreement unless and until it assumed or adopted that agreement. Until there was such overt conduct by the DIP it was not a "party" to any labor agreement and was not subject to the statutory termination

requirements imposed by Section 8(d) LRMA.¹⁵

The Kevin Steel court established that a DIP can disaffirm a debtor's labor agreement, but it wasn't until the Second Circuit decided BRAC v. REA Express, Inc., 523 F. 2d 164 (2d Cir. 1975) that the bargaining obligations of a DIP were explained. The REA panel drew an analogy between the bargaining obligations of a DIP and a successor-employer. NLRB v. Burns International Security Service, Inc., 406 U.S. 272 (1972)

15 29 U.S.C. 158(d), which provides that "no party to [a LMRA-covered] contract shall terminate or modify such contract, unless the party desiring such termination or modification" satisfies detailed notice and other procedural requirements. Most significantly, termination cannot be effected until sixty days have elapsed, after notice has been given, or the termination date originally set in the contract has arrived, whichever occurs later. Id. §158 (d)(4).

The Second Circuit stated that where the DIP's employees are represented by a union it is obligated only to give that labor organization reasonable notice of its proposed terms of employment and to negotiate for a reasonable length of time before putting them into effect.¹⁶ The bargaining agent for the DIP's employees cannot impose the debtor's labor agreement upon the DIP. Yet, the DIP,

¹⁶ 523 F.2d at 171. In Burns, this Court stated in dictum, that in certain instances where a "new employer...retain[s] all the employees in the unit,...it will be appropriate to have him initially consult with the employees' bargaining representative before he fixes terms." 406 U.S. at 295. The Second Circuit, in REA, noting that the bankruptcy proceedings had put the union on notice that changes might be necessary to prevent financial collapse limited this Burns exception to situations where "employees are led at the outset by the successor employer to believe that they will have continuity of employment on pre-existing terms." 523 F.2d at 171.

by either expressly assuming or conforming to the terms of the debtor's contract, can thereby become bound to it. In re Public Ledger, Inc., 161 F. 2d 762, 767 (3d Cir. 1947); BRAC v. REA Express, Inc., 523 F.2d at 170 and Truck Drivers Local 807 v. Bohack, 541 F.2d at 320-321.

During each of the proceedings and appeals, instituted since June 30, 1975, the DIP has always acknowledged that it conformed to the terms and conditions of the Agreement between July 30, 1974 and July 18, 1975. In fact, on August 1, 1975, the DIP served and filed an answer and counterclaim wherein it acknowledged that it had assumed the debtor's labor agreement (R. 74a, par. 16). By its conduct it is evident that the DIP elected to assume the debtor's labor agreement and receive the

benefit of the drivers' services rather than face any uncertainty or turmoil that might have followed had it sought to negotiate new terms and conditions for their employment following the filing of the Chapter XI petition. Having elected to acquiesce to the Agreement's terms, the DIP became bound to the Agreement, just as if it had been¹⁷ made by the DIP in the first instance.

Thus, the DIP was ineligible, on July 18, 1975, to seek or obtain disaffirmance of the Agreement, and its relationship to the Agreement was subject to the termination procedures of Section 8(d) of the LMRA.

¹⁷ American Anthracite and Bituminous Coal Corp. v. Leonardo Arrevabene, S.A., et al., 280 F.2d 119, 124 (2d Cir. 1960). The DIP moved to reject the Agreement only after it had discharged all of its drivers and obtained, from the bankruptcy court, a broad preliminary injunction order preventing the Petitioner from engaging in any strike activity.

The opinion below cannot be reconciled with either this Court's decision in Burns, the Third Circuit's decision in Public Ledger, or the reasoning of the Second Circuit in REA Express. Moreover, the opinion below-if permitted to stand-will undo what Congress has accomplished over the years, by enacting the LMRA and its amendments, to establish industrial stability.

B. Bankruptcy Court's Review of Arbitrable Grievances.

The clear impact of the court below's erroneous decision is that the federal labor policy favoring arbitration of industrial grievances is to be subservient to Rule 919 (b) of the Rules of Bankruptcy Procedure. The simple filing of a Chapter XI petition will effectively negate the efficacy of the

labor agreement's grievance procedure. What is viewed as a contractual right with a debtor is the subject for a bankruptcy referee's discretion with a DIP.

This is the antithesis of Section 203(d) of the LMRA which provides that "[f]inal adjustment by a method agreed upon by the parties is hereby declared to be the desirable method of settlement of grievance disputes arising over the application or interpretation of an existing collective-bargaining agreement."

Furthermore, in Steelworkers v. Warrior & Gulf Co., 363 U.S. 574 (1960), this Court, defined the primary role of grievance arbitration in promoting and preserving harmonious industrial relations:

"[T]he grievance machinery under a collective bargaining agreement is at the very heart of the system

of industrial self-government. Arbitration is the means of solving the unforeseeable by molding a system of private law for all the problems which may arise and to provide for their solution in a way which will generally accord with the variant needs and desires of the parties. The processing of disputes through the grievance machinery is actually a vehicle by which meaning and content are given to the collective bargaining agreement." at 581.

The Second Circuit, first, relegated the Agreement to an unprecedented "limbo" status- neither existent nor non-existent-(App. A, *infra*, p. 35a) and then incorrectly affirmed a rejection thereof. That court offered two reasons for requiring bankruptcy court approval before arbitration can be undertaken pursuant to an existing labor agreement: (1) judicial control over the

rights and duties of the DIP to protect the creditors, and (2) the court's inability to "see [any] reason why [bankruptcy] court approval must be had for arbitration upon a stipulation (Rule 919(b)) and dispensed with when the arbitration was agreed upon in [an] earlier contract".¹⁸

Of course, a bankruptcy court must protect the rights of creditors by assuring that the DIP operates the debtor's business to foster satisfaction of outstanding debts. But the court below totally neglected to balance against the creditors rights those of the bargaining unit employees under the Agreement. More fundamentally, however, the court below failed to take into account the fact that grievance arbitration-the

¹⁸ App. A, *infra*, p. 37a.

cornerstone of industrial self-government-is an essential ingredient of national labor policy. In doing so, the court below also ignored this Court's holding in Steelworkers v. American Mfg. Co., 363 U.S. 564, 566 (1960) that the federal labor policy set forth in Section 203(d) "can be effectuated only if the means chosen by the parties for settlement of their differences under a collective bargaining agreement is given fully play."

The decision below wreaks havoc with the system of self-government devised by management and labor when an employer has DIP status. The bankruptcy judge, at least in the first instance, will become a de facto labor arbitrator, but one who lacks the requisite labor expertise. The court below made no attempt to limit the scope of the

Rule 919(b) requirement.

Presumably, it applies to all arbitrable¹⁹ disputes. In every instance, whichever party wants to process a dispute through grievance arbitration will first have to apply to the bankruptcy court for authorization. This requirement will adversely affect even the individual worker who has had a disagreement with his supervisor, for example over shift selection, and who would have ordinarily submitted the dispute to the grievance machinery for settlement, but who now must arrange for having bankruptcy court authorization and await a favorable determination from that body before the grievance can be processed. This process will seriously impede the quick and fair settlement of minor disputes-

¹⁹ The DIP admits that its disputes with the Petitioner are arbitrable. R. 75a.

one of the chief purposes of grievance arbitration. See Cox, Reflections Upon Labor Arbitration, 72 Harv. L. Rev. 1482, 1497-1507 (1957).

C. Authority of Bankruptcy Court to Determine Grievance Forum.

The court below held that the grievance procedure set forth in the Agreement applies to disputes, between the DIP and Petitioner, that have been authorized for submission to arbitration. However, the lower courts did not determine the proper grievance jurisdiction to hear those disputes. The district court's decision held that if the DIP disagreed with Petitioner's view-that their disputes should be submitted to the Committee-then "the bankruptcy court will have to determine the appropriate committee for arbitration." (R. 149a). The court below affirmed.

Such a procedure for the selection of a grievance forum is misplaced. The issue is not whether the DIP presently agrees with Petitioner on the appropriate grievance forum, it is which forum the Agreement designates as having jurisdiction over these disputes. The Committee is the only grievance tribunal that the Agreement empowers with original jurisdiction to render an award on the disputes between Petitioner and DIP.

The Agreement consists of three sections. Articles 1-39 (R. 15a-34a) constitutes the National Section. Articles 40-68 (R. 37a-55a) are within the Area Section. In addition there is a two page rider which is referred to as the Local Section (R. 63a-64a). The grievance procedure is contained in Articles 8 (R. 22a-25a) and 46 (R. 42a-44a).

The disposition of grievances, other than discharge cases, is referred to in the terminology of "settlement". The Committee has exclusive jurisdiction over all disputes and grievances involving the DIP and Petitioner, except for discharge cases (R. 41a). If a dispute or grievance is settled by majority vote of the labor and management panel-the Committee-its decision is final and binding.²⁰

The bankruptcy court does not possess the jurisdictional authority to make the determination of "the appropriate committee" to arbitrate the disputes between DIP and Petitioner. Any judicial inquiry into the arbitration process is pursuant to Section 301(a) LMRA, which empowers "district courts"-not bankruptcy courts-to hear "suits for

²⁰ Article 46, Section 1(b)(1) of the Agreement (R. 43a).

violation of [collective bargaining] contracts.
Just as the bankruptcy court does not possess
"jurisdiction over labor disputes" it is not
empowered to engage in any procedural inter-
pretation of arbitration agreements.²¹

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the present case is of the utmost importance and concern to all employers and unions that are now or will be faced with the continuation of a business operation under Chapter XI, and this petition for a writ of certiorari should be granted.

O'CONNOR, QUINLAN & MANGAN, P.C.
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Long Island City, N.Y. 11101
Counsel for Petitioner

Of Counsel:
J. Warren Mangan

²¹ Truck Drivers Local 807 v. The Bohack Corp.,
7 Collier Bankruptcy Cases 485, 91 LRRM 2164
(E.D.N.Y. 1975).

Appendices

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

-----X

TRUCK DRIVERS LOCAL UNION
NO. 807, INTERNATIONAL
BROTHERHOOD OF TEAMSTERS,

Plaintiff-Appellant,

v.

THE BOHACK CORPORATION,

Defendant-Appellee.

Dkt. Nos.
75-7694
76-3003

TRUCK DRIVERS LOCAL UNION
NO. 807, INTERNATIONAL
BROTHERHOOD OF TEAMSTERS,

Petitioner,

v.

HONORABLE JACOB MISHLER,
CHIEF JUDGE UNITED STATES
DISTRICT COURT EASTERN
DISTRICT OF NEW YORK

Respondent.

-----X

Before:

HON. J. EDWARD LUMBARD,
PAUL R. HAYS and
MURRAY I. GURFEIN, Circuit Judges

New York, N. Y. August 9, 1976

JUDGE GURFEIN:

We have before us two consolidated actions: (1) an appeal by Truck Drivers Local Union No. 807 ("the union") from an order of the United States District Court for the Eastern District of New York (Chief Judge Mishler) dismissing the union's petition to confirm a grievance award; and (2) a petition for a writ of mandamus directing the District Court

2a

to dissolve an injunction issued against the union, to stay its remand of certain issues to the bankruptcy judge, and to compel immediate submission of certain issues to the grievance procedure provided for in the collective bargaining agreement. For reasons that appear below, we reverse the district court's grant of a preliminary injunction against the union under our mandamus jurisdiction, and affirm the rest of the district court's order.

In March 1973 the Bohack Corporation ("Bohack") and the union entered into a three-year collective bargaining agreement under the terms of the National Master Freight Agreement and the New Jersey - New York Area General Trucking Supplemental Agreement. On July 30, 1974

3a

Bohack filed a petition under Chapter XI of the Bankruptcy Act, 11 U.S.C. §701 et seq., and by order of the same date was allowed to continue to operate its business as a "debtor-in-possession."¹ At that time, more than 120 members of the union were employed by Bohack as truckdrivers.

On December 16, 1974, four and one-half months after the petition was filed, Bohack decided to terminate most of its operations at the Bohack Square Meathouse and to receive certain food products from Shopwell's warehouse in trucks operated by Shopwell employees who were members of another local union. As a result,

¹ A debtor-in-possession acts with all the powers of a trustee. 11 U.S.C. §742.

more than sixty Bohack truckdrivers lost their jobs. The union immediately filed a grievance against Bohack, contending that Bohack had breached Article 32 of the Master Agreement which purported to limit the right of the Employer to transfer to others work done by members of the local union.² At a meeting of the New York City Joint Local Grievance

² Article 32 reads in part as follows:

For the purpose of preserving work and job opportunities for the employees covered by this Agreement, the Employer agrees that no work or services of the kind, nature or type covered by, presently performed, or hereafter assigned to the collective bargaining unit will be subcontracted, transferred, leased, assigned or conveyed in whole or in part of any plant, person or nonunit employees unless otherwise provided in this Agreement.

Committee held in December, Bohack argued that this grievance could not be decided by the Local Committee but was a matter for the national Grievance Committee since it involved an interpretation of the National Master Agreement.³

³ The employer relies on Article 8 of the National Master Freight Agreement, which provides in relevant part, that:

All factual grievances or questions of interpretation arising under the provisions of the Supplemental Agreement, (or factual grievances arising under the National Master Agreement) shall be processed in accordance with the grievance procedure of the applicable Supplemental Agreement.

Any request for interpretation of the National Master Agreement shall be submitted directly to the Conference Joint Area Committee for the making of a record on the matter, after which it shall be immediately referred to the National Grievance Committee. Such request shall be filed with both the Union and Employer Secretaries of the National Grievance Committee with a complete statement of the matter.

Though at first it had found otherwise,⁴ the Committee, on rehearing, found on May 16, 1975, that Bohack had violated

⁴ After the December hearing, the local committee had rules that an inter-union jurisdictional dispute between this union and another Teamster local representing the Shopwell employees was involved, and referred the dispute to the Teamster Joint Counsel for resolution, as provided for in Article 30 of the Master Agreement. Article 30 provides that:

In the event that any dispute should arise between any Local Unions, parties to this Agreement, Supplements or Riders thereto or between any local Union, party to this Agreement, Supplements or Riders thereto and any other Union, relating to jurisdiction over employees or operations covered by such Agreements, the Employer and the Local Unions agree to accept and comply with the decision or settlement of the Unions or Union bodies which have the authority to determine such dispute, and such disputes shall not be submitted to arbitration under this Agreement, Supplements or Riders thereto or to legal or administrative agency proceedings. Pending such determination, the Employer shall not be precluded from seeking appropriate legal or administrative relief against work stoppages or picketing in furtherance of such dispute.

Article 32 of the agreement, and entered an award favorable to the union ordering Bohack to cease and desist from having its bargaining unit work subcontracted out. Neither Bohack nor the union had sought permission of the bankruptcy judge to submit the dispute to the grievance procedure.

The next stage in the eventual elimination of all jobs held by Bohack's truckdrivers was Bohack's change in grocery suppliers, from the Filgree Company to the companies of Krasdale and Bozzuto, in May, 1975. The Krasdale deliveries were made by its own drivers, and additional Bohack workers thus lost their jobs.

On May 27, 1975, the union instituted a suit in state court to confirm

the grievance award, which Bohack removed to the federal court. Bohack refused to comply with the award and in June, 1975, when Bozzuto drivers took over its deliveries, more Bohack truckdrivers were out of work. By the end of June, 1975, only 32 members of the union were still employed. The union was advised in late June that Bohack intended to terminate the remaining 32 truckdrivers on July 3, 1975. The union struck and began to picket on June 30, 1975. The same day, on motion of Bohack, the bankruptcy judge (Judge Parente) issued a temporary restraining order against the strike, and on July 16, 1975, he issued a preliminary injunction restraining the union from engaging in picketing or

strikes against Bohack, basing his jurisdiction on Section 301 of the Labor-Management Relations Act, 29 U.S.C. § 185.

On July 18, 1975, the remaining 32 workers were terminated. On that day, Bohack also moved for the first time to reject the collective bargaining agreement under § 313 of the Bankruptcy Act, 11 U.S.C. § 713.

The union appealed to the district court from the grant of the preliminary injunction. Chief Judge Mishler signed an order to show cause but struck the provision suspending Judge Parente's preliminary injunction. Chief Judge Mishler informed counsel that he doubted the jurisdiction of the Bankruptcy Court under § 301, and suggested that a

complaint be filed under § 301 in the district court. Apparently no new complaint was filed by Bohack.

The union started a new action, however, pursuant to § 301 (a) 29 U.S.C. § 185(a), to compel Bohack "...to specifically perform its collective bargaining agreement with plaintiff and to submit any grievances between them to grievance procedure." Bohack's answer included a counterclaim seeking arbitration if authorized by the Bankruptcy Court pursuant to Bankruptcy Rule 919(b), discussed infra.

On November 19, 1975, Chief Judge Mishler vacated the preliminary injunction issued by the bankruptcy judge but issued a temporary restrain-

ing order against the union.⁵ He dismissed the union's petition to confirm the arbitrator's award, and remanded to the bankruptcy judge "the issue of the advisability of granting the debtor leave to arbitrate." A hearing was set for November 26 to decide the employer's motion for preliminary

5 Judge Mishler's order read, in relevant part, as follows:

Sufficient cause having been shown therefore, and it appearing the plaintiff is about to commit the acts complained of, to the irreparable injury of defendant, pending the hearing and determination of this motion, plaintiff is hereby restrained and enjoined from conducting a strike, walkout, or work stoppage or establishing a picket line at defendant's various places of business or at the premises of any other party or person doing business with defendant.

injunctive relief. On November 25, Judge Costantino signed an order to show cause why the temporary restraining order should not be dissolved on the ground that it was entered in violation of the Norris-LaGuardia Act, 29 U.S.C. § 101 et seq.

The union's motion to dissolve the temporary restraining order and the employer's motion for preliminary injunctive relief were both heard by Chief Judge Mishler on November 26. He denied the union's motion to dissolve the temporary restraining order and decided to "continue the terms of the t.r.o." issued on November 19, until the bankruptcy judge should decide whether to allow arbitration of the subcontracting dispute under

Bankruptcy Rule 919(b) and whether to permit Bohack to reject its collective bargaining agreement under §313 (1) of the Bankruptcy Act, 11 U.S.C. §173(1).⁶

On December 12, 1975, the union filed a notice of appeal from the judgment dismissing the union's petition to confirm the arbitration award. The union did not appeal from the order continuing the t.r.o. On December 30, 1975, the union filed

⁶ This section provides that:

Upon the filing of a petition, the court may, in addition to the jurisdiction powers, and duties conferred and imposed upon it by this chapter -

(1) permit the rejection of executory contracts of the debtor upon notice to the parties to such contracts and to such other parties in interests as the court may designate;

its petition for the writ of mandamus described above. By order of January 16, 1976, the appeal and the petition were consolidated.

I.

The union did not appeal from the district court's grant of injunctive relief against its activities, apparently on the theory that what had been issued remained a non-appealable temporary restraining order. See Grant v. United States, 282 F.2d 165 (2 Cir. 1960). However, the words used are not controlling on whether the order amounts to a grant of preliminary injunctive relief appealable under 28 U.S.C. § 1292(a) when the practical effect of the refusal to dissolve the temporary restraining order is the equivalent of the grant of

preliminary injunctive relief. Morning Telegraph v. Powers, 450 F. 2d 97, 99, (2 Cir. 1971) cert. denied, 405 U.S. 954 (1972); Hoh v. Pepsico, Inc., 491 F.2d 556, 560 (2 Cir. 1974). Accord, Telex Corp. v. International Business Machines Corp. 464 F.2d 1025 (8 Cir. 1972) (per curiam). When the district court extended for an indefinite period of time the terms of the temporary restraining order issued on November 19 and refused to dissolve it, the order became appealable as the grant of a preliminary injunction.⁷ However, the union failed to file a timely appeal from this order, and thus we lack appellate jurisdiction to review its validity.

⁷ 28 U.S.C. § 1292(a)(1).

The union does seek a writ of mandamus, however, directing the district court to vacate its order restraining the union from engaging in activities protected by Section 4 of the Norris-LaGuardia Act, 29 U.S.C. §104. Although such a writ is an extraordinary remedy, and is not merely a substitute for appeal, Roche v. Evaporated Milk Ass'n, 319 U.S. 21, 26 (1943), we believe in this case the writ should issue because the district court acted beyond its jurisdiction in restraining the union. "The traditional use of the writ in aid of appellate jurisdiction both at common law and in the federal courts has been to confine an inferior court to a lawful exercise of its prescribed jurisdiction or to compel it to exercise its authority when it is its duty to do so."

Roche v. Evaporated Milk Ass'n, supra.
319 U.S. at 26; Bankers Life & Cas. Co.
v. Hollan, 346 U.S. 379, 384 (1953);
DeBeers Consol. Mines Ltd. v. United
States, 325 U.S. 212 (1945); Ex parte
Republic of Peru, 318 U.S. 578 (1943).

The Norris-LaGuardia Act, 29 U.S.C. §§101-115, deprives the federal courts of jurisdiction to issue temporary restraining orders or injunctions in any case "involving or growing out of a labor dispute," except "in strict conformity with the provisions of this chapter." Act, §1, 29 U.S.C. §101. Section 4 of the Act, 29 U.S.C. §104, specifically deprives the federal courts of jurisdiction to issue orders restraining strikes or peaceful "patrolling" such as the picketing enjoined

here. And sections 7 through 9 of the Act, 29 U.S.C. §§ 107-109, impose procedural safeguards including hearing witnesses in open court and a specific finding of irreparable injury to property which public officials are unable to protect, before the issuance of any injunction or temporary restraining
8
order.

8 Section 7 of the Norris-LaGuardia Act, 29 U.S.C. §107, provides:
No court of the United States shall have jurisdiction to issue a temporary or permanent injunction in any case involving or growing out of a labor dispute, as defined in this chapter, except after hearing the testimony of witnesses in open court (with opportunity for cross-examination) in support of the allegations of a complaint made under oath, and testimony in opposition thereto, if offered, and except after findings of fact by the court, to the effect -

The injunctive remedy is sought to be justified, however, under Section 301 of the National Labor Relations Act, 29 U.S.C. § 185, which empowers the district

(a) That unlawful acts have been threatened and will be committed unless restrained or have been committed and will be continued unless restrained, but no injunction or temporary restraining order shall be issued on account of any threat or unlawful act excepting against the person or persons, associations, or organization making the threat or committing the unlawful act or actually authorizing or ratifying the same after actual knowledge thereof;

(b) That substantial and irreparable injury to complainant's property will follow;

(c) That as to each item of relief granted greater injury will be inflicted upon complainant by the denial of relief than will be inflicted upon defendants by the granting of relief;

(d) That complainant has no adequate remedy at law; and

(e) That the public officers charged with the duty to protect complainant's property are unable or unwilling to furnish adequate protection...

courts to hear "suits for violation of [collective bargaining] contracts." While Section 301 has been held to provide jurisdiction to enjoin protected union activity under certain circumstances, the circumstances are carefully defined. Boys Market Inc. v. Retail Clerks Union Local 770, 398 U.S. 235, held that in aid of its jurisdiction under § 301 to enforce collective bargaining agreements, a district court could enjoin a strike in violation of a contractual "no-strike" clause where the subject of the dispute was covered by a mandatory arbitration clause, and the Court adopted the view that "the employer should be ordered to arbitrate, as a condition of his

obtaining an injunction against the strike." 398 U.S. at 254, quoting dissenting opinion in Sinclair Refining Co. v. Atkinson, 370 U.S. 195, cited with approval in Buffalo Forge Co. v. United Steelworkers of America, 44 U.S. L. W. 5346, 5349 (U.S. July 6, 1976). We have held such an order to the employer to be essential to jurisdiction. Emery Air Freight Corp. v. Local Union 295, 449 F.2d 586, 588-589 (2d Cir. 1971), cert. denied, 405 U.S. 1066 (1972); New York Telephone Co. v. Communications Workers of America, AFL-CIO, 445 F.2d 39, 50 (2d Cir. 1971).

That requirement is of the essence here. For when the employer is not ordered to arbitrate, the union is unable effectively either to arbitrate

or to strike. Such a result is unsupportable as a matter of policy under the Norris-LaGuardia Act.⁹ See Buffalo Forge Co. v. United Steelworkers, *supra*. Since Bohack had not indicated a willingness to abide by the arbitration prior to filing its counterclaim, and since the bankruptcy judge had not ordered the debtor to submit to the grievance procedure, he surely lacked jurisdiction, even if a Bankruptcy

⁹ Indeed Section 8 of the Norris-LaGuardia Act, 29 U.S.C. § 108 provides that:

No restraining order or injunctive relief shall be granted to any complainant who has failed to comply with any obligation imposed by law which is involved in the labor dispute in question, or who has failed to make every reasonable effort to settle such dispute either by negotiation or with the aid of any available governmental machinery of mediation or voluntary arbitration.

Court, ever has jurisdiction to make orders under Section 301, to enjoin a strike or picketing. Nor did the district court, even with its limited power to enforce Section 301, have jurisdiction to issue such injunctive relief in view of the withdrawal of jurisdiction from the federal courts in the Norris-LaGuardia Act. In re Third Ave. Transit Corp., 192 F.2d 971, 973, (2 Cir. 1951), clearly held that the Norris-LaGuardia Act restricts the power of a bankruptcy court in reorganization proceedings. Whether or not permission from the Bankruptcy Court was necessary for a valid arbitration, a question we discuss below, there was never an order to the employer to arbitrate which would have

supported jurisdiction under the Boys Market exception to the Norris-LaGuardia Act.

The argument is made that to allow picketing in the case of this financially troubled debtor is to put it out of business. That is, unfortunately, sometimes the sad outcome when a union and an employer cannot come to terms. But the policy of our labor laws is simply to provide rules for the handling of labor disputes, not to prohibit the use of economic power in the resolution of such disputes. By filing under Chapter XI an employer does not become clothed in immunity from union action. As we recognized in Shopmen's Local Union No. 455 v. Kevin Steel Products, Inc. 519 F. 2d 698, (2 Cir. 1975) and Brotherhood of Railway,

Airline and Steamship Clerks, etc. v. R.E.A. Express, Inc. 523 F.2d 164 (2 Cir.), cert. denied, 44 U.S.L.W (U.S. Dec. 9, 1975), the debtor in a bankruptcy proceeding has other means for release from unlivable conditions in a collective bargaining agreement by petitioning for permission to reject the contract. But the power to permit rejection of the agreement in particular circumstances does not confer an antecedent jurisdiction on the court to enjoin picketing in spite of the Norris-LaGuardia Act. We conclude, therefore, that the district court did not have jurisdiction, without ordering arbitration, to enjoin the picketing or other lawful union activity, and hence will grant the writ of mandamus to the district court to dissolve any such order.

We recognize that the passage of time has allowed the collective agreement to expire and that there are no longer any members of the union in the employ of Bohack. We express no views on the remaining rights of the union at this juncture.

II.

The district court denied enforcement of the grievance award on two grounds: first, that the parties had not sought and received permission of the bankruptcy judge to arbitrate, as is required by Rule 919(b) of the Bankruptcy Rules, and second, that the Joint Local Committee which made the award was, under the terms set forth in the Master Agreement, without jurisdiction to decide the dispute. We agree with the district court that enforcement must be

denied because the bankruptcy judge had not approved the submission of the dispute to the grievance machinery, and do not decide whether¹⁰ the Joint Local Committee had jurisdiction.

Rule 919(b) provides that "[o]n stipulation of the parties to any controversy affecting the estate the court may authorize the matter to be submitted to final and binding arbitration." The rule is silent on whether judicial authorization is required where an existing contract provides for arbitration.

The question, thus presented is whether an existing contractual agreement to arbitrate authorizes direct submission of a dispute to arbitration when one of the parties is a

¹⁰ If arbitration should ultimately be ordered, the parties could conceivably agree upon the proper grievance jurisdiction, and therefore we need not decide that issue now.

debtor-in-possession under Chapter XI, or whether the bankruptcy court must "authorize" the arbitration as provided for in Rule 919(b). To answer this question, however, we must first consider whether the agreement to arbitrate is still in effect.

We have concluded that an obligation to arbitrate, solemnly undertaken, is not subject to a unilateral disavowal even by a debtor-in-possession. See L.O. Koven & Brother, Inc. v. Local Union No. 5767, United Steelworkers of America, AFL-CIO, 381 F.2d 196, 203 (3 Cir. 1967). For while such a debtor, as trustee, speaks for the creditors as well as itself, it may not abrogate a contractual obligation save by statutory or judicial permission. Bankruptcy Act §313, 11 U.S.D. §713.

The agreement to arbitrate is itself a contract which creates rights and duties, and its survival in the setting of bankruptcy proceedings has been recognized in this circuit. In Schilling v. Canadian Foreign Steamship Co., Ltd. 190 F. Supp. 462 (S.D. N.Y. 1961), a debtor of the trustee sought to invoke the arbitration clause of their contract when the trustee sued on the debt; the trustee refused to proceed with the arbitration. Nevertheless, the district court ordered the trustee to arbitration, rejecting the argument that Rule 919(b)'s predecessor statute, Section 26 of the Act, 11 U.S.C. § 49, "evinced a congressional policy that the trustee in bankruptcy shall have the right to abrogate agreements for

arbitration." ¹¹ 190 F. Supp. at 463.

In Tobin v. Plein, 301 F. 2d 378 (2 Cir. 1962), the trustee in bankruptcy petitioned the referee for leave to commence arbitration proceedings against a former stockholder of the bankrupt, pursuant to an arbitration clause in a contract. The referee granted leave but was reversed by the district court. This court reinstated the referee's order. The issue arose under Section 26 of the Bankruptcy Act quoted above which also provided for the procedure to be used in the appoint-

¹¹ Section 26 of the Act, 11 U.S.C. §49 reads in part as follows:

(a) The receiver or trustee may, pursuant to the direction of the court submit to arbitration any controversy arising in the settlement of the estate.

ment of arbitrators. The court, in rejecting the argument that the procedure of Section 26 must be applied, noted that "this section is clearly drawn to provide arbitration machinery where no contractual arrangements exists. It does not supersede explicit contractual provisions. Schilling v. Canadian Foreign S.S. Co., Ltd., D.C.S.N.Y., 90 F.Supp. 462" 301 F. 2d at 381.

While Tobin v. Plein is not a holding precisely on point, the clear implication is

12 Section 26, 11 U.S.C. §49, continued after the portion set forth in note 11, *supra*, as follows:

(b) Three arbitrators shall be chosen by mutual consent, or one by the receiver or trustee, one by the other party to the controversy, and the third by the two so chosen or, if they fail to agree in five days after their appointment, the court shall appoint the third arbitrator.

that a contractual agreement to arbitrate survives the filing of a petition in bankruptcy.

We have recently held, however, that upon the filing of a Chapter XI petition, statutory requirements precedent to the termination of a collective bargaining agreement by the employer under Section 8 (d) of the National Labor Relations Act, 29 U.S.C. § 158(d), do not prevent its rejection by the bankruptcy court under Section 313(1) of the Bankruptcy Act. Shopmen's Local Union No. 455 v. Kevin Steel Products, Inc., *supra*, 519 F.2d 698; Brotherhood of Railway, Airline and Steamship Clerks, etc. v. R.E.A. Express, Inc. *supra*, 523 F.2d 164. We reasoned that the status of the debtor-employer is, in some respects, analogous to that of a successor employer

so far as an existing collective bargaining agreement is concerned, insofar as the debtor is a "new juridical entity."

That does not mean that the agreement ceases to exist. It means that for the narrow purpose of resolving otherwise conflicting provisions of the labor and bankruptcy laws "[u]ntil the debtor...assumes the old agreement or makes a new one, it is not a 'party' under section 8(d) to any labor agreement with the union and is simply not subject to the termination restrictions of the section." 519 F. 2d at 704. We went on to hold that Section 313(1) of the Bankruptcy Act permits rejection of a labor agreement, but Judge Feinberg was careful to note that "the Bankruptcy Act...does not authorize a debtor-in-possession to ignore its obligations

under the Labor Act any more than it can ignore those imposed by the Internal Revenue Code." 519 F. 2d at 706. We added that "the bankruptcy court must move cautiously in allowing rejection of a collective bargaining agreement." Id. at 707. Of course, the statement that the debtor is not a "party," and the analogy to the successor employer, cannot be taken literally, since neither affirmance nor rejection of the collective bargaining agreement would be possible by one not a party to it. See Countryman, Executory Contracts in Bankruptcy: Part II, 58 Minn. L. Rev. 479, 489 n. 259 (1974).

What we have here, then, is a contract in limbo. It is not an existing contract to be enforced by arbitration without court permission. Yet, if the bankruptcy court

orders arbitration, the contract is of sufficient vitality to support such an order. We conclude that the party seeking to arbitrate under a collective bargaining agreement must seek and receive authorization of the bankruptcy court for other reasons as well.

There must be judicial control over the exercise of the right to arbitrate just as there is over other rights and duties of the bankrupt. For now an additional consideration has been added, the rights of the creditors. See Johnson v. England, 356 F. 2d 44, (9 Cir.), cert. denied, 384 U.S. 961 (1966).¹³

¹³ While we do not necessarily agree with all the language or reasoning of the court in In re Muskegan Specialties Co., 313 F.2d 841, (6 Cir.), cert. denied sub nom., International Union, United Automobile, Aircraft & Agricultural Implement Workers of America, AFL-CIO v. Davis, 375 U.S. 832, (1963), we believe it supports our holding that the bankruptcy judge's authorization (properly exercised) is required in order for the arbitration award to be valid.

Moreover, we can see no reason why court approval must be had for arbitration upon a stipulation (Rule 919(b))) and dispensed with when the arbitration was agreed upon in an earlier contract. In either case, the same rights or creditors are involved and the obligation of the bankruptcy court to protect all concerned is the same.

Since the agreement has expired by its terms, however, the scope of any arbitration may be limited. Whether an arbitrator can order a debtor-in-possession to reinstate the employment of men who have been discharged is a question we need not decide. Cf. United Steelworkers of America v. Enterprise Wheel & Car Corp. 363 U.S. 593 (1960).

The bankruptcy judge will have to determine: (1) whether to affirm the contract, or whether the debtor has so conformed to the

contract as to make it binding, see In re Public Ledger, Inc., 161 F. 2d 762, 767 (3d Cir. 1947), cited with approval in REA Express, Inc., ¹⁴supra, 523 F.2d at 170; (2) whether to grant the debtor's petition to reject the agreement as onerous, adhering to our admonition in Kevin Steel to "move cautiously in allowing rejection of a collective bargaining agreement," 519 F. 2d at 707; and (3) whether to order arbitration under its terms in any event, and on what issues.

¹⁴ Judge Mansfield, in the REA case, supra, put the issue in terms of whether the employees were misled by the actions of the debtor-in-possession, noting that "the Chapter XI proceeding, which was widely publicized, put the unions, and REA employees on notice that changes would be required to avert collapse of REA. 523 F. 2d at 171.

It may seem anomalous that we should affirm a remand to decide on whether to reject a contract that, by its own terms, has expired. Issues remain, however, which depend upon the decision on remand. Upon affirmance of the contract, the agreement to arbitrate survives the expiration of the contract as to disputes arising during the term of the contract. See United Steelworkers of America v. Enterprise Wheel & Car Corp., supra. Rejection of the contract is deemed a breach of contract as of the time of filing the Chapter XI petition. 8 Collier on Bankruptcy ¶3.15[7] at 206 (14 ed. 1976). Even if the contract is rejected that does not necessarily mean that arbitration should not be ordered though the issues may be

15
different. Moreover, if the contract is re-
jected, the employees become creditors of the
estate and may have a claim for damages against
the estate; if the contract is affirmed or
found to have been assumed, the employees
may have a first priority claim for wages and

15 If the contract is rejected by the
bankruptcy court, it will be deemed to have
been breached as of the date of filing of the
petition under Ch. XI. But like any other
unilateral breach of contract, it does not
destroy the contract so as to absolve the
parties (particularly the breaching party)
from a contractual duty to arbitrate their
disputes. Cf. Drake Bakeries, Inc. v.
Local 50, American Bakery & Confectionary
Workers International, AFL-CIO, 370 U.S.
254, 262 (1962); In re Phalberg Petition,
131 F.2d 968 (2d Cir. 1942); 9 Williston
on Contracts §1023D, at 614 (3d ed. 1967).
Hence, the provisions for arbitration
could continue to support an order of the
bankruptcy judge that the parties arbi-
trate their dispute, though the priority
and status of any arbitration award would
be a matter of bankruptcy law for the
bankruptcy court to decide.

16
other fringe benefits. Countryman, supra
at 494.

In view of the long time that has
elapsed since the filing of the petition, we
believe it is in the interests of everyone
concerned that the question of whether to
reject the collective bargaining agreement
should be decided promptly and before any
other issues are considered. We agree with
Chief Judge Mishler that the bankruptcy judge
may proceed to hear witnesses without exten-
sive pretrial discovery. After the decision

16 We wish to emphasize that we inti-
mate no view on whether Bohack was within
the rights under the contract in eliminating
the jobs held by the union members. If the
court finds that the contract was assumed
or affirmed, a claim for wages or other
contractual benefits for the period of the
contract after employment ceased would arise
only if the arbitrator or the court also
finds that the contract was breached by the
employer's actions after the petition was
filed.

has been made on whether or not to affirm the contract, the bankruptcy judge should determine in his discretion whether to order arbitration even before Chief Judge Mishler has ruled upon any petition for review of the decision on affirmance or disaffirmance.

We therefore remand to the district court with a suggestion that the bankruptcy judge be directed to proceed promptly in conformity with this opinion.

APPENDIX B

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

-----X
In The Matter of :
THE BOHACK CORPORATION, : Bankruptcy
Debtor, : No. 74: B 933
-----X
THE BOHACK CORPORATION, :
Plaintiff, :
-against- :
TRUCK DRIVERS LOCAL UNION :
NO. 807, INTERNATIONAL :
BROTHERHOOD OF TEAMSTERS, :
ET AL., :
Defendants. :
-----X

This cause came on for trial before the
Court, Honorable C. Albert Parente, Bankruptcy

Judge, presiding and the issues having been duly tried and verdict having been directed for the plaintiff,

IT IS ORDERED AND ADJUDGED that plaintiff's labor agreement with the defendant be, and hereby is, rejected as of July 19, 1975.

/s/ C. Albert Parente
Bankruptcy Judge

Dated: Westbury, N.Y.
May 28, 1976

44a

APPENDIX C

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

-----X
In the Matter of :
THE BOHACK CORPORATION, : Bankruptcy
Debtor. : No. 74-B-933
-----X ORDER
THE BOHACK CORPORATION, :
Plaintiff, :
-against- :
TRUCK DRIVERS LOCAL UNION :
NO. 807, INTERNATIONAL :
BROTHERHOOD OF TEAMSTERS, :
ET AL., :
Defendants. :
-----X

This matter having come on for a hearing before Bankruptcy Judge C. Albert Parente of this Court on September 28, 1976 and Stanley

45a

Shaw, Esq. having appeared for plaintiff and J. Warren Mangan, Esq. having appeared for defendant.

IT IS HEREBY ORDERED that the parties hereto submit the grievances alleging plaintiff's violation of Article 40, Section 4(a), Article 50, Section 2 and Rider paragraph 2, of the prevailing collective bargaining agreement, to arbitration, in accordance with the procedure set forth in Section 26 of the Bankruptcy Act, to determine if plaintiff breached said collective bargaining agreement and to render a finding on damages, if necessary.

Dated: October 15, 1976

/s/C. Albert Parente
Bankruptcy Judge

APPENDIX D

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

-----X
In the Matter of :
THE BOHACK CORPORATION, :
Debtor. : Bankruptcy
No. 74-B-933
-----X
THE BOHACK CORPORATION, : ORDER
Plaintiff, :
-against- :
TRUCK DRIVERS LOCAL UNION :
NO. 807, INTERNATIONAL :
BROTHERHOOD OF TEAMSTERS, :
ET AL., :
Defendants. :
-----X

This matter having been remanded to the District Court with a suggestion as contained in the opinion of the UNITED STATES COURT OF

APPEALS FOR THE SECOND CIRCUIT - Docket Nos. 75-7694, 76-3003 decided August 9, 1976 that this Court be directed to proceed promptly in conformity with said opinion, and the matter having come on for a hearing on September 28, 1976 and J. Stanley Shaw, Esq. having appeared for the Plaintiff and J. Warren Mangan having appeared for the Defendant, and the matter having been heard by this Court on September 28, 1976; and the Plaintiff having moved for reargument by notice of motion returnable in this Court on October 14, 1976, and said motion for reargument having been heard by this Court on October 14, 1976, and the Court having rendered its decision on September 28, 1976, and having rendered a further decision on October 14, 1976, with respect to the motion

for reargument.

IT IS HEREBY ORDERED that Plaintiff's motion for reargument is hereby granted and upon said reargument the Court adheres to its original decision of September 28, 1976 as modified by this order.

IT IS HEREBY ORDERED that in the discretion of this Court that the parties hereto submit the following issues to arbitration:--

a) The extent of damages to be recovered by the discharged employees upon the rejection of the labor contract between The Bohack Corporation and Truck Drivers Local Union No. 807 - International Brotherhood of Teamsters.

b) The amount and extent of pension, health insurance, welfare, vacation benefits and the value of seniority of each employee

effected by said rejection of the employment contract.

c) The amount of the mitigation of such damages by reason of the subsequent employment of each employee or the receipt of unemployment insurance paid to said employee.

d) The issue of whether or not the contract rejected by the employer should be specifically enforced by the reinstatement of each employee notwithstanding the fact that the contract has expired and;

IT IS ORDERED that all issues determined by the arbitrators be subject to the further order of this Court, as to the status, amount and the validity of such arbitrator's award and it is

FURTHER ORDERED that the arbitrator shall proceed in accordance with the procedures set

forth in Section 26, 11 U.S.C. Section 49.

Dated: October 21, 1976

/s/ C. Albert Parente
Bankruptcy Judge

APPENDIX E

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

-----X
In the Matter of :
THE BOHACK CORPORATION, : Bankruptcy No.
Debtor. : 74 B 933
: 75 C 905
: 75 C 1191
-----X

THE BOHACK CORPORATION, :
Plaintiff, :
-against- : Memorandum of
Decision
TRUCK DRIVERS LOCAL UNION :
NO. 807, INTERNATIONAL :
BROTHERHOOD OF TEAMSTERS, :
ET AL., :
Defendants. :

-----X April 21, 1977

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MISHLER, CH. J.

This is a consolidated appeal from two
orders of the bankruptcy court, Parente, J.,
entered on October 15 and 21, 1976.

The facts of this case are set forth in
the Second Circuit's opinion in Truck Drivers
Local 807 v. Bohack, 541 F.2d 312 (2d Cir.
1976). To provide a proper framework for our
discussion, we will summarize briefly the
salient events of the Bohack Corporation's
("Bohack") recent, troubled past. In March
1973, Bohack and Truck Drivers Local 807
("the union") entered into a three-year col-
lective bargaining agreement. At that time,
Bohack employed more than 120 members of the
union. On July 30, 1974, Bohack filed a

petition for arrangement under Chapter XI of the Bankruptcy Act, 11 U.S.C. § 701 et seq. An order issued that day allowed Bohack to continue business operations, which then included approximately 150 retail supermarkets, as a "debtor-in-possession." See 11 U.S.C. § 742. Four and one-half months later, on December 16, 1974, Bohack terminated produce, dairy and bakery operations at its Brooklyn warehouse in favor of a contract with an independent wholesaler, leaving 60 Bohack truckdrivers without work. The union filed a grievance alleging Bohack had violated a provision of the collective bargaining agreement that limited the employer's right to transfer to others work done by members of the local union. On May 16, 1975, the Grievance Committee ruled that Bohack had violated article 32 of the Master

Agreement.

Nonetheless, that same month, Bohack changed grocery suppliers. The new suppliers had their own drivers and, consequently, more Bohack drivers lost their jobs. By July 18, 1975, the remaining workers were terminated and that same day Bohack moved to reject the collective bargaining agreement pursuant to § 313 of the Bankruptcy Act, 11 U.S.C. § 713. The union began an action in this court pursuant to § 301(a) of the Labor-Management Relations Act, 29 U.S.C. § 185(a), to compel Bohack to perform the collective bargaining agreement. The union also sought to confirm the grievance award, the subject of a state court proceeding that Bohack had removed to the federal court.

On November 19, 1975, this court dismissed the union's petition to confirm the

arbitrator's award, and remanded to the bankruptcy judge "the issue of the advisability of granting the debtor leave to arbitrate." On appeal, the Second Circuit affirmed the remand, although it directed this court to vacate an order restraining the union from picketing Bohack.

The bankruptcy judge was instructed to determine:

(1) whether to affirm the contract, or whether the debtor has so conformed to the contract as to make it binding, see In re Public Ledger, Inc., 161 F. 2d 762, 767 (3d Cir. 1947), cited with approval in REA Express, Inc., supra, 523 F.2d at 170; (2) whether to grant the debtor's petition to reject the agreement as onerous, adhering to our admonition in Kevin Steel to "move cautiously in allowing rejection of a collective bargaining agreement," 519 F. 2d at 707; and (3) whether to order arbitration under its terms in any event, and on what issues.

541 F.2d at 320-21 (footnote omitted).

Several months prior to the Second Circuit's decision, on May 19, 1976, Bankruptcy Judge

Parente had entered an order rejecting the collective bargaining agreement, which had expired on March 31, 1976, as onerous and burdensome to the debtor. On October 15, 1976, acting pursuant to the Second Circuit's remand, Judge Parente directed the union to submit its grievances with the debtor-in-possession "to arbitration, in accordance with the procedure set forth in Section 26 of the Bankruptcy Act, to determine if [the debtor-in-possession] breached said collective bargaining agreement and to render a finding on damages, if necessary." On October 21, 1976, after hearing reargument, Judge Parente signed a second arbitration order, directing the parties to submit the following issues to arbitration:

a) The extent of damages to be recovered by the discharged employees upon the rejection of

the labor contract between The Bohack Corporation and Truck Drivers Local Union No. 807 - International Brotherhood of Teamsters.

b) The amount and extent of pension, health insurance, welfare, vacation benefits and the value of seniority of each employee effected [sic] by said rejection of the employment contract.

c) The amount of the mitigation of such damages by reason of the subsequent employment of each employee or the receipt of unemployment insurance paid to said employee.

d) The issue of whether or not the contract rejected by the employer should be specifically enforced by the reinstatement of each employee notwithstanding the fact that the contract has expired....

In addition, this order provided that

issues determined by the arbitrators be subject to the further order of this Court, as to the status, amount and the validity of

such arbitrator's award and it is

FURTHER ORDERED that the arbitrator shall proceed in accordance with the procedures set forth in Section 26, 11 U.S.C. Section 49..

Both Bohack and the union filed notices of appeal from the orders. On November 19, 1976 Judge Parente stayed arbitration pending the decision of this court.

REJECTION OF THE COLLECTIVE BARGAINING AGREEMENT

Local 807 argues that Bohack failed to establish that the labor contract was onerous and burdensome and, therefore, the bankruptcy court erred in granting the petition to reject the agreement. Moreover, aside from the question of burdensomeness, the union contends that the debtor-in-possession became a party to the agreement by expressly or implicitly adopting its terms.

In Shopmen's Local 455 v. Kevin Steel Prod., Inc., 519 F.2d 698 (2d Cir. 1975), the Second Circuit touched on the considerations that must inform the decision to allow rejection of a collective bargaining agreement:

[A] showing that the employer is not improperly motivated merely by a desire to rid itself of the union and its adherents,... convincing proof of the company's financial condition, the source of its difficulties and the benefits to be gained by rejecting the contract, and a careful weighing of the equities against rejection, including the loss of intangible employee rights.

Id. at 707. The desire of the debtor-in-possession to improve its financial status is not, by itself, a valid reason for allowing rejection. Id. See Brotherhood of Railway, Airline and Steamship Clerks v. REA Express, 523 F.2d 164 (2d Cir.), cert. denied, ____ U.S. ____, 96 S. Ct. 451 (1975).

See generally Miller, Bankruptcy Law Introduction, The Second Circuit Review, 1974-1975 Term, 42 Brooklyn L. Rev. 709 (1976); 42 Brooklyn L. Rev. 726 (1976).

In this case, the bankruptcy judge properly allowed rejection of the collective bargaining agreement. Indeed, the choice presented was a simple one. If the contract was not rejected, the debtor would not be able to reorganize. Either the debtor was relieved of the contract or the entire business would collapse.

According to the testimony of Joseph Binder, the president of Bohack prior to the filing of the Chapter XI petition and its current executive vice-president, as of January 1974, Bohack had approximately 140 stores in operation. These stores were supplied by warehouses located at a

central terminal in Brooklyn, known as Bohack Square. There was a grocery warehouse, meat warehouse, dairy warehouse, produce warehouse and delicatessen commissary. Approximately 50% of the 37 acres of terminal property were used for the warehouse and distribution operation. Bohack annually paid one and one-half million dollars for the carrying charges, maintenance and taxes on that portion of the terminal.

After the filing of the Chapter XI petition, the Creditors Committee directed Bohack to reduce the number of its retail outlets. The closings began in earnest in November 1974. By November, 1975, the company held 72 retail stores, essentially now a regional chain, down from a high of 200 stores in 1973, when it qualified as a general supermarket. The closings

substantially reduced the volume of merchandise handled by the warehouse, which created a "negative cash flow."¹ (Tr. Nov. 17, 1975, at 29-30). As the store closing increased, the Creditors Committee directed Bohack to rid itself of the terminal, or face complete liquidation.

In December 1974 and January 1975, the produce, dairy and grocery warehouses were closed. To meet its dairy and produce needs, Bohack negotiated a supply agreement with a wholesaler, Shopwell, Inc. The debtor requested that its drivers be allowed to pick up the merchandise from Shopwell, but the wholesaler flatly refused, indicating "they had enough problems without getting involved with another union" (Tr. Nov. 17, 1975, at 39). Essentially the same pattern was repeated as Bohack closed the remaining

warehouse operations and turned to wholesalers to meet its supply needs. Eventually, all the warehouses were closed and Bohack completely vacated the terminal except for some maintenance equipment and vehicles.

The savings to Bohack from the terminal closing totaled approximately two million dollars, including \$925,000 saved by eliminating the labor contract and approximately one million dollars then being lost annually by the warehouse operation (Tr. Nov. 17, 1975, at 68-74). There was testimony, accepted as the opinion of an expert by Judge Parente, that a Chapter XI re-organization was impossible if the debtor continued to operate the warehouse (Tr. Nov. 17, 1975, at 81-82). Indeed, the union did not take issue with Bohack's position that the warehouse had to close (Tr. Nov. 17, 1975, at 70-71). The

problem, of course, was that the new suppliers refused to use the Bohack drivers. The debtor, who was in an extremely precarious financial position--aside from other Chapter XI losses, it was unable to purchase the \$2,500,000 worth of merchandise necessary to sustain its then current weekly sales of \$3,200,000--hardly had the bargaining power to force the new suppliers to use Bohack drivers. And, obviously, a company that had lost ten million dollars up to the date of the Chapter XI petition (Tr. Nov. 17, 1975, at 75-76) could not undertake a re-organization while paying a million dollars annually to truck drivers for whom there is no work. Thus, the point is not, as the union argues, that the transportation costs to Bohack under the new agreements are the same as under the Local 807 contract, but that circumstances left Bohack with a costly

and entirely superfluous labor agreement. See Matter of Cheney Bros., 12 F. Supp. 605, 609 (D. Conn. 1935). This is not a case of rejection of a labor contract to improve the debtor's financial position. It is, rather, the hard but clear choice between termination of a collective bargaining agreement involving a hundred and twenty workers or the collapse of a company that employs more than 2,000 men and women.

Moreover, Binder's testimony establishes that the company was in no way motivated by a desire to rid itself of the Local 807 contract. At every stage of the warehouse closing, Bohack attempted to negotiate agreements with its new wholesalers that would provide work for the union. In one instance, the contract with Bozzuto, a grocery supplier, for a time allowed the

union to deliver the groceries from Bohack Square to the retail stores after the food-stuffs were trucked in by Bozzuto. Finally, transportation costs under the new agreements do not provide Bohack with a discernible advantage over the collective bargaining contract (Tr. May 19, 1975, at 33).

The union also claims that, aside from the issue of burdensomeness, Bohack either expressly assumed or adopted the terms of the collective bargaining agreement. It points out that between the filing of the Chapter XI petition and the rejection of the contract, Bohack employed Local 807 drivers, paid the agreed wage rates, recognized seniority, contributed to the union's health and pension plans, and engaged in grievance proceedings. In the union's view, "the debtor so conformed to the

contract as to make it binding." Truck Driver's Local 807, supra at 321, citing In re Public Ledger, Inc., 161 F.2d 762, 767 (3d Cir. 1947).

In In re Public Ledger, Inc., supra, a Chapter X re-organization that involved the implied assumption of a labor contract by the trustee in bankruptcy, the circuit court cited several circumstances giving rise to the adoption of a contract:

[T]he term adoption is usually applied...to a situation in which a receiver either (a) indicates an intention fully to perform the obligations of the insolvent, (b) indicates an intention to insist on full counter-performance, or (c) acts in such a way with reference to a contract...that fairness to the solvent party requires that the consequences of adoption be attributed to his action....

Id. at 767, quoting Clark, Foley and Shaw,

Adoption and Rejection of Contracts and Receivers, 46 Harv. L. Rev. 1111, 1123 (1933). In REA Express, Inc., supra, Judge Mansfield framed the issue as whether the debtor-in-possession misled the employees into believing "that they will have continuity of employment on pre-existing terms." Id. at 171. These standards imply affirmative conduct that is inconsistent with a later move to reject entirely the contract. In most circumstances, merely continuing to adhere to the labor agreement for a period following the filing of a bankruptcy petition should not constitute assumption of the contract. The stricter rule, advocated by the union, would result in rejection of labor contracts at the time the bankruptcy petition is filed even though the need for rejection is not yet apparent. Moreover,

a reasonable amount of time is necessary to evaluate the financial condition of the bankrupt and then to formulate a plan for re-organization. See In re American National Trust, 426, F.2d 1059, 1064 (7th Cir. 1970); 8 Collier on Bankruptcy ¶3.15[6], at 204 (14 ed. 1976).

Here, the conduct of the debtor following the Chapter XI petition was quite inconsistent with an assumption of the labor agreement. In the first place, the financial deterioration of the company, concomitant with the Chapter XI proceeding, put the union on notice that changes would be necessary to avert collapse of the supermarket chain. See REA Express, Inc., supra at 171. Within four and one-half months of the Chapter XI petition, Bohack had laid off half of its drivers. Indeed,

the union sought arbitration, claiming that Bohack had breached the collective bargaining agreement. Despite the Grievance Committee's finding in favor of the union, Bohack continued to close down warehouses and lay off drivers. The same day that the company moved to reject the labor agreement, the remaining Bohack drivers were terminated. These actions are hardly those of a company that intends to complete fully a labor agreement and nor could there have been any misunderstanding of the debtor's fidelity to the terms of the agreement. Survival, not contract, had the highest priority.

ARBITRATION

Both parties raise objections to the bankruptcy judge's orders directing arbitration. The debtor contends that rejection

of the contract mooted the need for arbitration and that Local 807 waived its right to arbitrate by submitting a claim for damages to the bankruptcy court as an administrative claim. The union argues that the bankruptcy judge erred in ordering arbitration pursuant to the grievance procedure of §26(b) of the Bankruptcy Act, 11 U.S.C. §49(b), since the collective bargaining agreement contains a grievance mechanism. It also contends that any grievance award is not subject to review by the bankruptcy judge as to "the amount and validity of that award."

It is important to recognize at the outset that two distinct, although not necessarily incompatible, policy considerations exist in this case. One involves the broad equitable

powers and discretion vested in the bankruptcy court, giving it the ability to protect and administer the estate for the benefit of both creditors and insolvent. 11 U.S.C. § 11. See In re Westec Corporation, 449 F.2d 243, 244 (5th Cir. 1971); 1 Collier on Bankruptcy ¶2.50 et seq. (14th ed. 1976). Among the powers exercised by a bankruptcy court within its equity jurisdiction are the allowance and disallowance of claims. 11 U.S.C. § 11(2). The Supreme Court has held that

a bankruptcy court has full power to inquire into the validity of any claim asserted against the estate and to disallow it if it is ascertained to be without lawful existence. Lesser v. Gray, 236 U.S. 70, 35 S. Ct. 227, 59 L.Ed. 471.

And the mere fact that a claim has been reduced to judgment does not prevent such an inquiry. As the merger of a claim into a judgment does not change its nature so far as provability is concerned, Boynton v. Ball, 121 U.S. 457, 7 S. Ct. 981, 30 L. Ed. 985, so the court may look behind the judgment to determine the essential nature of the liability for purposes of proof and allowance. Wetmore v. Markoe, 196 U.S. 68, 25 St. Ct. 172, 49 L.Ed. 390, 2 Ann. Cas. 265.

Pepper v. Litton, 308 U. S. 295, 305-06, 60 S. Ct. 238, 244-45 (1939).

The other consideration present in this case is the federal labor policy favoring arbitration "as the means of resolving disputes over the meaning and effect of collective-bargaining agreements." Nolde Brothers, Inc. v. Local 358, Bakery & Confectionery Workers, 45

U.S.L.W. 4251, 4254 (U.S. Mar. 7, 1977).

The grievance machinery of a collective bargaining agreement, a part of the ongoing collective bargaining process, "is at the very heart of the system of industrial self-government." United Steelworkers of America v. Warrior & Gulf Navigation Co., 363 U.S. 574, 581, 80 S. Ct. 1347, 1352 (1960). Moreover, courts generally defer to the arbitrator's interpretation of an agreement.

The labor arbitrator is usually chosen because of the parties' confidence in his knowledge of the common law of the shop and their trust in his personal judgment.... The ablest judge cannot be expected to bring the same experience and competence to bear upon the determination of a grievance, because he cannot be similarly informed.

Id. at 582-83, 80 S. Ct. at 1352-53.

Plenary review by courts of the merits of an arbitrator's decision would render meaningless a contractual provision that the arbitrator's decision is final.

[T]he question of interpretation of the collective bargaining agreement is a question for the arbitrator. It is the arbitrator's construction which was bargained for; and so far as the arbitrator's decision concerns construction of the contract, the courts have no business overruling him because their interpretation of the contract is different from his.

United Steelworkers of America v. Enterprise Wheel and Car Corp., 363 U.S. 593, 599, 80 S.Ct. 1358, 1362 (1960).

The emphasis placed on arbitration as a means of preserving labor peace, and the unique role of the bankruptcy court in protecting both creditor and insolvent,

are principles that may be consistently animated in this case. To begin with, rejection of a collective bargaining agreement by a bankruptcy court does not obviate the need for arbitration. The Second Circuit was quite specific on this point in its Bohack opinion, stating in a footnote that rejection of the labor agreement "does not...absolve the parties ...from a contractual duty to arbitrate their disputes." 541 F.2d at 321 n.15. See Nolde Brothers, Inc. v. Local 358, Bakery & Confectionery Workers, supra. Even in the context of a bankruptcy proceeding, the unique role and special expertise of the arbitrator may be of invaluable assistance to the bankruptcy judge and may serve to avoid unnecessary conflict between labor union and debtor.

See L.O. Koven & Brother, Inc. v. Local 5767, United Steel, 381 F.2d 196 (3d Cir. 1967).⁷²

This is not to say, however, that in ordering arbitration a bankruptcy judge can relinquish to the arbitrator decisions that touch on special bankruptcy interests. For example, it has been held an abuse of discretion for a bankruptcy court to allow an arbitrator to decide the question of the preference of the union's claims with respect to other creditors of the bankrupt.

Johnson v. England, 356 F.2d 44, 52 (9th Cir.), cert. denied, 384 U.S. 961, 86 S.Ct. 1587 (1966). See also In re Muskegon Motor Specialities Co., 313 F.2d 841 (6th Cir.), cert. denied, 375 U.S. 832, 84 S.Ct. 51 (1963). Thus,

in deciding whether a grievance or claim arising under a rejected collective bargaining agreement is appropriate for arbitration, the touchstone is whether arbitration will preserve labor peace, bring to bear the expertise of the arbitrator on issues such as working conditions or shop practices, and, at the same time, avoid usurpation of the bankruptcy court's critical role in the re-organization proceeding. With these principles in mind, we turn to an examination of the bankruptcy court's orders directing arbitration.⁷³

1. The Order of October 21

The bankruptcy judge's arbitration order does not satisfy entirely the above criteria. The first three issues referred to the arbitrator, which involve the amount of damages suffered by the employees

as a result of the rejection, are appropriate for arbitration. The labor agreement specifies that "[a]ll factual grievances or questions of interpretation" arising under the contract must be the subject of a grievance proceeding. (National Master Freight Agreement, article 8). A broad arbitration clause such as this encompasses every grievance unless the dispute is specifically excluded. International Union of Elec., Radio & Mach. Workers v. General Electric Co., 332 F. 2d 485, 488 (2d Cir.), cert. denied, 379 U.S. 928, 85 S.Ct. 324 (1964); Publishers' Ass'n of New York City v. New York Mailers' Local Six, 317 F.2d 624, 625 (2d Cir. 1963), vacated

on other grds, 376 U.S. 775, 84 S.Ct. 1132 (1964). Moreover, aside from the presumption of arbitrability, the discharge and other claims of the employees are matters involving interpretation of the contract. See General Teamsters, Chauffeurs & Helpers v. Blue Cab Co., 353 F. 2d 687, 690 (7th Cir. 1965). The fact that working conditions or shop practices are not directly at issue does not mean the special expertise of the arbitrator is of no value. For example, valuing seniority rights under the unfulfilled portion of the collective bargaining agreement, as well as ascertaining the mitigating value of the new seniority rights of

terminated employees who subsequently obtained employment, does not appear to be simply a matter of dollars and cents, rather, it involves knowledge of the likelihood of attrition and advancement of employees within the industry and an interpretation of contract provisions respecting seniority rights. See Nolde Brothers, Inc., supra (severance pay); Straus-Duparquet, Inc. v. Local 3, Int. Bro. of Elec. Wkrs., 386 F. 2d 649, 650 (2d Cir. 1967) (vacation claims); International Longshoremen's Ass'n v. New York Shipping Ass'n, 403 F.2d 807 (2d Cir. 1968) (medical services). Finally, labor peace is a legitimate consideration. The debtor is still in business and, as the Second Circuit

made clear, the union has the right to picket the supermarket chain, which could have disastrous consequences for the re-organizing company. Compare In re Muskegon Motor Specialties Co., supra at 843.

The bankruptcy judge, however, erred in directing the arbitrator to decide whether the rejected agreement should be enforced by re-instatement of each employee. True, in a non-bankruptcy context, this issue would be appropriate for arbitration. But in the context of a Chapter XI arrangement, an arbitrator's decision on this point will affect interests consigned to the bankruptcy court, specifically, whether employment of the Local 807 drivers is "onerous and

burdensome" to the debtor-in-possession. Indeed, in allowing rejection of the contract, the bankruptcy judge found that Bohack could not attain financial viability and at the same time employ Local 807 drivers. If the arbitrator is now allowed to re-instate terminated employees, the rejection of the contract becomes meaningless.^{/4}

In addition, we disagree with the order of October 21, 1976, with respect to the provision that all issues determined by the arbitrators are subject to review by the bankruptcy court "as to the status, amount and the validity of such arbitrator's award." The Second Circuit specifically limited the bankruptcy judge's authority over an arbitration award to determining "the

"priority and status" of the award as a matter of bankruptcy law. Truck Drivers Local 807 v. Bohack Corp., supra at 321 n. 15. No mention was made of discretion to change the amount awarded or inquire into the validity of such an award. As pointed out earlier, questions of interpretation of the contract are for the arbitrator, not the courts. Indeed, by ordering arbitration, the bankruptcy judge implicitly acknowledged that the arbitrator possesses special expertise and competence in resolving labor grievances. There is no point to arbitration proceedings if a bankruptcy judge, lacking experience in the collective bargaining process, undertakes a plenary review of the arbitrator's decisions concerning areas where the arbitrator's knowledge and experience

are far superior. Once an award is made, however, its status and priority are questions for the special expertise of the bankruptcy court, which may then relegate the claims of the union to a proper place in the framework of the re-organization.

Finally, the union contends that the contract controls the question of the grievance procedure, not §26 of the Bankruptcy Act. We agree. The agreement to arbitrate survives the filing of the bankruptcy petition. Tobin v. Plein, 301 F.2d 378 (2d Cir. 1962), the expiration of the collective bargaining contract, Nolde Brothers, Inc., supra, and the rejection of the labor agreement, Truck Drivers Local 807, supra. If the contractual duty to arbitrate survives rejection, there is no reason why the grievance pro-

cedures established by the parties should not also survive. Moreover, in Tobin v. Plein, supra, the Second Circuit rejected the argument that arbitration proceedings ordered by a bankruptcy court must be governed by §26 of the Bankruptcy Act:

[T]his section is clearly drawn to provide arbitration machinery where no contractual arrangements exist. It does not supersede explicit contractual provisions.

301 F.2d at 381; citing Schilling v. Canadian Foreign S.S. Co., 190 F. Supp. 462 (S.D.N.Y. 1961).¹⁵ Here, the collective bargaining agreement contains detailed procedures for the arbitration of grievances arising under the agreement. These provisions govern the arbitration directed by the bankruptcy court.¹⁶

2. The Order of October 15

A confusing situation exists because of the October 15 order signed by Judge Parente. In that order, Local 807 was directed to submit its grievances with the debtor "to arbitration, in accordance with the procedure set forth in §26 of the Bankruptcy Act, to determine if [the debtor-in-possession] breached said collective bargaining agreement and to render a finding on damages, if necessary." The subsequent order of October 21 only directed arbitration on specific issues, and did not mention arbitration of the issue of whether the collective bargaining agreement was breached. Since both orders are appealed, we will assume that the second order did not vacate the first one.

The question is whether, in view of

the rejection of the collective bargaining agreement, it is necessary to determine whether the agreement was breached by the employer in the months following the filing of the bankruptcy petition and prior to rejection. Had the contract been assumed or affirmed,

a claim for wages or other contractual benefits for the period of the contract after employment ceased would arise only if the arbitrator or the court also finds that the contract was breached by the employer's actions after the petition was filed.

Truck Drivers Local 807, supra at 321 n.16.

Rejection of the contract, however, operates as a unilateral breach of the contract at the time of filing the Chapter XI petition.

11 U.S.C. § 103(c). See Truck Drivers Local 807, supra at 321, 8 Collier on

Bankruptcy ¶3.15[7], at 206 (14 ed. 1976). Thus, as of July 30, 1974, the date of the Chapter XI petition, the collective bargaining agreement was terminated by Bohack. Whether Bohack was within its rights under the contract in eliminating jobs is a moot question. The only issue that remains is whether the employees suffered damages as a result of the rejection and, if so, how much. See 8 Collier on Bankruptcy ¶3.15 [10], at 208 (14 ed. 1976). Any finding of damages would, of course, be diminished by salaries paid to union members after filing of the petition, as well as by any wages and rights obtained from employment after termination and during the remainder of the period covered by the collective bargaining agreement.

This analysis rests, in part, on the pre-Chandler Act doctrine, judicial in origin, that the filing of a bankruptcy petition is an anticipatory breach of the bankrupt's executory contracts. City Bank Farmers Trust Co. v. Irving Trust Co., 299 U.S. 433, 440, 57 S.Ct. 292, 295 (1937); S & W Holding Co. v. Kuriansky, 317 F.2d 666, 668 (2d Cir. 1963). The nonbankrupt party had the option to treat the contract as breached and seek damages. The enactment of the Chandler Act in 1938, however, gave the trustee or receiver the option to assume or reject executory contracts of the bankrupt, 11 U.S.C. §713(1), and no mention was made of the anticipatory breach decision. See Countryman, Executory Contracts in Bankruptcy: Part II, 58 Minn. L. Rev. 479, 520 (1974). A pre-Chandler Act decision

of the Second Circuit presaged the effect on the anticipatory breach doctrine of this congressionally authorized option:

A trustee in bankruptcy is entitled to a reasonable opportunity to determine whether to adopt or reject an executory contract. If he adopts it and performs the bankrupt's duties thereunder, he can insist upon performance by the other party. While the trustee still has the matter of adoption under advisement, it may be assumed that he could restrain the other party from disposing of the subject matter of the contract or otherwise acting in a manner to impair the trustee's option to adopt the contract.

Matter of United Cigar Stores Co. of America, 89 F.2d 3, 6 (2d Cir. 1937) (Swan, J.). Accord, Matter of Gulfco Investment Corp., 520 F. 2d 741, 743 (10th Cir. 1975).

The concept of bankruptcy-as-anticipatory

breach nonetheless underpins the apparent fiction that rejection of the executory contract is a breach of the contract as of the date of filing of the petition. If the contract is rejected,

the bankrupt's anticipatory breach is never cured and the conduct of the other party in dealing with the subject-matter of the contract in the meantime has only resulted in mitigating the damages caused by rejection.

In Matter of Cigar Stores, supra at 6. Thus, in the present case, the filing of the Chapter XI petition was an anticipatory breach of the collective bargaining agreement, although the union could not assert the breach against the debtor-in-possession. 6 Colliers on Bankruptcy, ¶3.23, at 576-78 (14 ed. 1972). Once the contract is rejected, the anticipatory breach could never be "cured," and the question of violations of the labor contract

following the filing of the petition became academic. The only issue left by the rejection is damages, as mitigated by the conduct of the parties following the Chapter XI petition.

In sum, the order of the bankruptcy court allowing rejection is affirmed. The October 21 arbitration order is affirmed insofar as it directs arbitration on the three issues involving damages resulting from the rejection. Otherwise, the order of October 21 is reversed, with directions to proceed in accordance with this opinion as to procedures for arbitration and review of any arbitration award. The order of October 15 is reversed and vacated.

/s/ Jacob Mishler
U.S.D.J.

FOOTNOTES

/1 Prior to the filing of the Chapter XI petition, Bohack's merchandise volume from its stores was approximately \$300,000,000 a year. By November 1975, the volume had dropped to \$165,000,000 per year (Tr. Nov. 17, 1975, at 38).

/2 The debtor's heavy reliance on Allegaert v. Perot, 76 C 7235 (2d Cir. Jan. 25, 1977), in arguing against arbitration, is misplaced. At issue there was the arbitrability, not of labor disputes, but of claims arising under the securities laws, which implicated the federal policy favoring determination of stock fraud questions in the federal courts. Slip. op. at 1531.

/3 The debtor contends that, "by filing its claim in the Bankruptcy Court as an administrative claim, 807 has waived its right to seek the same remedy in any other forum." For a number of reasons, we find this argument lacks merit. In the first place, in the context of a bankruptcy proceeding, waiver should not be a controlling consideration in ordering arbitration. Rather, the bankruptcy

court must decide on the desirability of arbitration, taking into account the intent of one or both parties to avoid arbitration. The powers of a bankruptcy court to order arbitration are sufficiently broad to overcome a waiver by one of the parties. Second, courts have held that filing an unfair labor practice charge with the National Labor Relations Board does not waive the right to arbitration of a grievance involving the same facts. E.g., Amalgamated Local 55 v. Metal & Alloy Div., 397 F.Supp. 667, 670 (W.D.N.Y. 1975); Glass Bottle Blowers Ass'n v. Arkansas Glass Container Corp., 183 F.Supp. 829, 830-31 (E.D. Ark. 1960), aff'd 286 F. 2d 431 (6th Cir.), cert. denied, 366 U.S. 930, 81 S. Ct. 1651 (1961). Here, as in those cases, the union was attempting to explore all possible means of redress and did not act in a manner inconsistent with arbitration. See Luckenbach Overseas Corp. v. Curran, 398 F.2d 403, 405 n. 3 (2 Cir. 1968); Chatham Shipping Co. v. Fertex S.S. Corp., 352 F.2d 291, 293 (2d Cir. 1965). Finally, the debtor has failed to make any showing of prejudice resulting from the filing of the administrative claim. See ITT World Communications Inc. v. Communications Workers of America, 422 F.2d 77, 82-83 (2d Cir. 1970).

/4

In addition, an award of the arbitrator directing re-instatement necessarily is

an equitable remedy. The Bankruptcy Act, however, "in its present form deals only with claims which can be converted to money." Countryman, Executory Contracts in Bankruptcy: Part II, 58 Minn. L. Rev. 479, 565-66 (1974).

/5

Rule 919 of the new Bankruptcy Rules provides in pertinent part:

(b) Arbitration. On stipulation of the parties to any controversy affecting the estate the court may authorize the matter to be submitted to final and binding arbitration.

This rule also appears to be directed at disputes where contractual provisions do not exist.

/6

The question still remains as to the proper grievance jurisdiction under the collective bargaining agreement. In our memorandum of decision and order, dated November 19, 1975, we concluded that the grievance, as originally presented to the Joint Local Committee, "was a matter outside its jurisdiction and the proceedings upon which it was based, a nullity." 74 B 933, at 11 n.10 (nov. 19, 1975). The union, in response to the Second Circuit's suggestion that "the parties could conceivably agree upon the proper grievance jurisdiction," 541 F.2d at 319 n.10, has withdrawn its

allegation of a violation of article 32 of the Agreement. In its view, this means that "the Committee is the [proper] grievance tribunal." If the debtor disagrees, the bankruptcy court will have to determine the appropriate committee for arbitration.

* * * *

98a

APPENDIX F

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 306, 550 -- September Term, 1977

Argued December 1, 1977 Decided December 14, 1977

Docket No. 77-5013, 77-5014

-----x

THE BOHACK CORPORATION,

Plaintiff-Appellee-Appellant,

-against-

TRUCK DRIVERS LOCAL UNION NO.
807, INTERNATIONAL BROTHERHOOD
OF TEAMSTERS, et al.,

Defendants-Appellants-Appellees.

-----x

Before MOORE and GURFEIN, Circuit Judges
*
and BONSAI, District Judge.

J. WARREN MANGAN, Long Island
City, New York (O'Connor,
Quinlan & Mangan, P. C.,
Long Island City, New York,
of counsel), for Defendant-

* Hon. Dudley B. Bonsal, United States District
Judge for the Southern District of New York,
sitting by designation.

99a

Appellant-Appellee TRUCK
DRIVERS LOCAL UNION NO. 807.

JESSE I. LEVINE, New York, N.Y.
(Shaw and Levine, New York,
N.Y. of counsel), for
Plaintiff-Appellee-
Appellant.

PER CURIAM:

The matter is before us again on appeal from orders of the District Court for the Eastern District of New York (Chief Judge Mishler) entered after the remand of this Court on the earlier appeal reported in 541 F. 2d 312 (1976). We affirm on the opinion of Chief Judge Mishler below, issued on appeals from orders of Bankruptcy Judge Parente.

100a

APPENDIX G

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the fourteenth day of December one thousand nine hundred and seventy-seven.

Present: HON. LEONARD P. MOORE
HON. MURRAY I. GURFEIN
Circuit Judges

HON. DUDLEY B. BONSAL
District Judge

-----X
In the Matter of:

THE BOHACK CORPORATION, :
Debtor,

THE BOHACK CORPORATION, : 77-5013
Plaintiff-Appellee-Appellant, : 77-5014
V.

TRUCK DRIVERS LOCAL UNION NO. 807, :
INTERNATIONAL BROTHERHOOD OF
TEAMSTERS, CHAUFFEURS, WAREHOUSE- :
MEN & HELPERS OF AMERICA (Local 807)
Defendants-Appellants-Appellees.

-----X

101a

Appeal from the United States District Court for the Eastern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Eastern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged and decreed that the orders of said District Court be and they hereby are affirmed in accordance with the opinion of this court.

A. DANIEL FUSARO,
Clerk

By /s/ ARTHUR HELLER,
Deputy Clerk

102a

APPENDIX H

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the sixteenth day of February, one thousand nine hundred and seventy-eight.

Present: HON. LEONARD P. MOORE
HON. MURRAY I. GURFEIN
HON. DUDLEY B. BONSAL

Circuit Judges

-----x
THE BOHACK CORPORATION,

Plaintiff-Appellee, :

vs. : 77-5013

TRUCK DRIVERS LOCAL UNION NO. 807, :
INTERNATIONAL BROTHERHOOD OF TEAM- :
STERS, et. al. :

Defendants-Appellants. :

-----x

103a

A petition for a rehearing having been
filed herein by counsel for the appellants.

Upon consideration thereof, it is

Ordered that said petition be and here-
by is denied.

A. DANIEL FUSARO
Clerk

By /s/ IDA SMYER
Staff Attorney

APPENDIX I

This case involves the interpretation and
application of the following statutes:

1. Section 313(1) of the Bankruptcy Act,
11 U.S.C. 713(1):

"Upon the filing of a petition, the
court may, in addition to the juris-
diction, powers, and duties herein-
above and elsewhere in this chapter
conferred and imposed upon it-

(1) permit the rejection of
executory contracts of the debtor,
upon notice to the parties to
such contracts and to such other
parties in interest as the court
may designate;"

2. Section 8(d) of the Labor Management
Relations Act, 29 U.S.C. 158(d):

"(d) For the purposes of this
section, to bargain collectively
is the performance of the mutual
obligation of the employer and
the representative of the
employees to meet at reasonable
times and confer in good faith

with respect to wages, hours and other terms and conditions of employment, or the negotiation of an agreement, or any question arising thereunder, and the execution of a written contract incorporating any agreement reached if requested by either party, but such obligation does not compel either party to agree to a proposal or require the making of a concession: Provided, That where there is in effect a collective-bargaining contract covering employees in an industry affecting commerce, the duty to bargain collectively shall also mean that no party to such contract shall terminate or modify such contract, unless the party desiring such termination or modification- (1) serves a written notice upon the other party to the contract of the proposed termination or modification sixty days prior to the expiration date thereof, or in the event such contract contains no expiration date, sixty days prior to the time it is proposed to make such termination or modification; (2) offers to meet and confer with the other party for the

purpose of negotiating a new contract or a contract containing the proposed modifications;

(3) notifies the Federal Mediation and Conciliation Service within thirty days after such notice of the existence of a dispute, and simultaneously therewith notifies any State or Territorial agency established to mediate and conciliate disputes within the State or Territory where the dispute occurred, provided no agreement has been reached by that time; and

(4) continues in full force and effect, without resorting to strike or lock-out, all the terms and conditions of the existing contract for a period of sixty days after such notice is given or until the expiration date of such contract, whichever occurs later:

The duties imposed upon employers, employees, and labor organizations by paragraphs (2)-(4) of this subsection shall become inapplicable upon an intervening certification of the Board, under which the labor organization or individual, which is a party to the contract has been superseded as or ceased to be the representative of the

employees subject to the provisions of section 159(a) of this title, and the duties so imposed shall not be construed as requiring either party to discuss or agree to any modification of the terms and conditions contained in a contract for a fixed period, if such modification is to become effective before such terms and conditions can be reopened under the provisions of the contract. Any employee who engages in a strike within any notice period specified in this subsection, or who engages in any strike within the appropriate period specified in subsection (g) of this section, shall lose his status as an employee of the employer engaged in the particular labor dispute, for the purposes of sections 158 to 160 of this title, but such loss of status for such employee shall terminate if and when he is reemployed by such employer. Whenever collective bargaining involves employees of a health care institution, the provisions of this subsection shall be modified as follows:

(A) The notice of paragraph (1) of this subsection shall be ninety days; the notice of paragraph (3) of this subsection shall be sixty days; and the contract period of paragraph (4) of this subsection shall be ninety days..

(B) Where the bargaining is for an initial agreement following certification or recognition, at least thirty days' notice of the existence of a dispute shall be given by the labor organization to the agencies set forth in paragraph (3) of this subsection.

(C) After notice is given to the Federal Mediation and Conciliation Service under either clause (A) or (B) of this sentence, the Service shall promptly communicate with the parties and use its best efforts, by mediation and conciliation, to bring them to agreement. The parties shall participate fully and promptly in such meetings as may be undertaken by the Service for the purpose of aiding in a settlement of the dispute.

3. Section 203(d) of the Labor Management Relations Act, 29 U.S.C. 173(d):

(d) Final adjustment by a method agreed upon by the parties is declared to be the desirable method for settlement of grievance disputes arising over the application or interpretation of an existing collective-bargaining agreement. The Service is directed to make its conciliation and mediation services available in the settlement of such grievance disputes only as a last resort and in exceptional cases.

court of the United States having jurisdiction of the parties, without respect to the amount in controversy or without regard to the citizenship of the parties.

4. Rule 919(b) of the Rules of Bankruptcy Procedure:

(b) Arbitration. On stipulation the parties to any controversy affecting the estate the court may authorize the matter to be submitted to final and binding arbitration.

5. Section 301(a) of the Labor Management Relations Act, 29 U.S.C. 185(a)

(a) Suits for violation of contracts between an employer and a labor organization representing employees in an industry affecting commerce as defined in this chapter, or between any such labor organizations, may be brought in any district

Supreme Court, U. S.
FILED

SEP 6 1978

MICHAEL RODAK, JR., CLERK

**IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM 1977
NO. 77-1632**

TRUCK DRIVERS LOCAL UNION NO. 807, INTERNATIONAL BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, HELPERS AND WAREHOUSEMEN OF AMERICA,

Petitioner,

-against-

THE BOHACK CORPORATION,

Respondent.

**OPPOSITION TO PETITION FOR A WRIT OF
HABEAS CORPUS TO THE UNITED STATES COURT OF
APPEALS FOR THE SECOND CIRCUIT.**

**SHAW & LEVINE
1050 Franklin Avenue
Garden City, N.Y. 11530
*Counsel for Respondent***

Of Counsel:

**J. STANLEY SHAW
JESSE I. LEVINE
WILLIAM M. RIFKIN**

**HARVEY GOLDSTEIN
FINKEL & GOLDSTEIN
and
CONRAD B. DUBERSTEIN
OTTERBOURG, STEINDLER,
HOUSTON & ROSEN, P.C.
*Co-Counsel for Creditors' Committee***

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IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM 1977
NO. 77-1632

TRUCK DRIVERS LOCAL UNION NO. 807, INTER-
NATIONAL BROTHERHOOD OF TEAMSTERS,
CHAUFFEURS, HELPERS AND WAREHOUSEMEN
OF AMERICA,

Petitioner,

-against-

THE BOHACK CORPORATION,

Respondent.

PRELIMINARY STATEMENT

The Bohack Corporation, debtor-in-possession, respondent, (hereinafter referred to as "Bohack") and its official Creditors' Committee jointly submit their opposition to the petition of Truck Drivers Local Union No. 807, I.B.T. (hereinafter referred to as "Local 807") that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the Second Circuit, which unanimously affirmed the decision and order of the United States District Court for the Eastern District of New York (Mishler, Ch.J.) on the opinion below, which is reproduced at pp. 52a-98a of petitioner's appendix, 431 F. Supp. 646 (E.D.N.Y.). That order reviewed Bankruptcy Judge Parente's order with respect to arbitration pursuant to a collective bargaining agreement that had been rejected during the Chapter XI proceeding.

OPINION BELOW

On November 19, 1975, the United States District Court for the Eastern District of New York (Mishler, Ch.J.), rendered its decision from an order of the Bankruptcy Court for the Eastern District of New York (Parente, J.), which decision, in principal part, affirmed the Bankruptcy Court's decision to refuse to confirm an arbitration award of a Teamsters Grievance Committee entered in favor of Local 807 because the Bankruptcy Court had not authorized arbitration under the rejected collective bargaining agreement pursuant to Rule 919(b) of the Bankruptcy Act. The District Court, in accordance with Section 26 of the Bankruptcy Act, (11 U.S.C. 49), remanded to the Bankruptcy Court the "issue of the advisability of granting the debtor (Bohack) leave to arbitrate" (Resp. App. at 1a-10a).

The decision and order of the District Court was appealed by Local 807 to the United States Court of Appeals for the Second Circuit. The Court rendered its decision on August 9, 1976 (541 F.2d 312; * Pet. App. at 1a-42a). After a review of the decision of the District Court, the Second Circuit remanded three issues to be determined by the Bankruptcy Court:

"(1) whether to affirm the contract, or whether the debtor has so conformed to the contract as to make it binding, See *In re Public Ledger, Inc.* 161 F. 2d 762, 767 (3d Cir. 1947), cited with approval in *REA Express, Inc., supra*, 543 F.2d at 170; (2) whether to grant the debtor's petition to reject the agreement as onerous, adhering to our admonition in *Kevil Steel* to "move cautiously in allowing rejection of a collective bargaining agreement," 519 F.2d at 707; and (3) whether to order arbitration under its terms in any event, and on what issues." 541 F.2d at 320-21.

While the case was sub judice in the Second Circuit, the Bankruptcy Court, on May 28, 1976 had entered

judgment in favor of Bohack, authorizing Bohack to reject its collective bargaining agreement with Local 807, as of July 19, 1975. (Pet. App. at 43a-44a).

Based on the remand of the Second Circuit, the Bankruptcy Court, after a hearing, issued an order on October 15, 1976 directing "arbitration in accordance with the procedures set forth in Section 26 of the Bankruptcy Act to determine if [Bohack] breached said collective bargaining agreement, and to render a finding on damages if necessary." (Pet. App. at 45a-46a).

On October 21, 1976 the Bankruptcy Court entered a second order (47a-51a) setting forth the following issues to be submitted to arbitration:

a) The extent of damages to be recovered by the discharged employees upon the rejection of the labor contract between The Bohack Corporation and Truck Drivers Local Union No. 807 International Brotherhood of Teamsters.

b) That amount and extent of pension, health, insurance, welfare, vacation benefits and the value of seniority of each employee effected [sic] by said rejection of the employment contract.

c) The amount of the mitigation of such damages by reason of the subsequent employment of each employee or the receipt of unemployment insurance paid to said employee.

d) The issue of whether or not the contract rejected by the employer should be specifically enforced by the reinstatement of each employee notwithstanding the fact that the contract has expired.

In addition, the Bankruptcy Court stated in its Order of October 21, 1976 that:

"... all issues determined by the arbitrators be subject to the further order of this Court, as to the status, amount and the validity of such arbitrator's award . . ."

Both Bohack and Local 807 appealed to the District Court from the Bankruptcy Court's orders of October 15, 1976 and October 21, 1976. (Jt. App. 152a-155a). Bohack appealed on the ground that there should be no arbitration at all if, in fact, the rejection of the collective bargaining agreement on May 28, 1976 was proper. Local 807 appealed to the District Court on the issues of rejection of the collective bargaining agreement and whether the Bankruptcy Court could review arbitrable grievances.

The District Court (Mishler, Ch.J.) (431 F. Supp. 646, E.D.N.Y., 1977), after a lengthy review of the facts of the Chapter XI proceeding, affirmed the Bankruptcy Court's order granting Bohack judgment to reject its collective bargaining agreement with Local 807. Further, The District court vacated the October 15, 1976 order and affirmed the order of October 21, 1976 as to the first three issues stated in the Bankruptcy Court's order of October 21, 1976.

Local 807 appealed to the Second Circuit Court of Appeals, and in a per curiam decision (Pet. App. 99a-100a, 567 F.2d 237), the Second Circuit affirmed, on the opinion of the District Court.

ISSUES PRESENTED

1. Does rejection of an onerous and burdensome collective bargaining agreement between a debtor-in-possession and a union, pursuant to the Bankruptcy Act, moot all requirements for arbitration of alleged breaches of the rejected labor agreement.

2. If any arbitration is appropriate, is such arbitration governed by Section 26 and Rule 919(b) of the Bankruptcy Act?

3. Is consideration of that issue of sufficient public importance to warrant review by this Court?

STATEMENT OF FACTS

On July 30, 1974 Bohack filed its original petition pursuant to Chapter XI of the Bankruptcy Act and, by order entered on the same day was continued in operation and management of its business and property as debtor-in-possession. At the time of filing, Bohack had operated approximately 125 retail supermarkets in Brooklyn, Queens and Long Island, together with its warehouse and distribution facilities at Metropolitan Avenue in Brooklyn, New York (the "Terminal").

Local 807 represented all of the truck drivers employed by Bohack for over thirty years prior to the Chapter XI proceeding.

Local 807 drivers were laid off in various states. On December 16, 1974 sixty drivers were laid off as a result of the closing of one of Bohack's warehouses.

On December 16, 1974, Bohack began to terminate its operations at its warehouse at the Bohack Terminal Complex, Brooklyn, New York. Some of Local 807's members were discharged and Local 807 filed a grievance with the New York City Joint Local Grievance Committee in December and at that time the committee found the question was a jurisdictional dispute between Local 807 and another union whose drivers were delivering merchandise to Bohack stores from another supplier. Thereafter, however, the committee, on May 16, 1975, entered an award favorable to the union in effect prohibiting Bohack from receiving merchandise from other suppliers.

On May 27, 1975, Local 807 instituted a suit in the Supreme Court of the State of New York to confirm the arbitration award, which suit was removed to the District Court. On July 18, 1975, Bohack moved for rejection of the collective bargaining agreement pursuant to Section 313 of the Bankruptcy Act. (11 U.S.C. 713).

In January of 1975, additional drivers were laid off and in July of 1975, when Bohack terminated all its warehouse operations, the remaining thirty-two drivers were discharged. On July 18, 1975, the date of the last lay-off, Bohack moved to reject the labor contract with Local 807 pursuant to Section 313 of the Bankruptcy Act.

The rejection hearing was held in two parts, on November 17, 1975, and after an extended period of discovery by Local 807, on May 18, 1976. Joseph Binder, at the time of the November, 1975 hearing, was Executive Vice-President of Bohack, having been its President prior to the filing of the Chapter XI petition. (Unless otherwise indicated, all references to Binder's testimony in this Statement of Facts refer to the transcript of the November 17, 1975 hearing, which appeared in the joint appendix before the Court of Appeals.)

In January of 1974, Bohack had approximately 140 stores in operation, and just prior to the filing of the Chapter XI petition in July of 1974 there were approximately 125 stores in operation (176a). At one time in 1973 Bohack had over 200 stores. Those stores were supplied basically by the warehouses located at the terminal. There was a grocery warehouse, meat warehouse, dairy warehouse, produce warehouse, and delicatessen commissary (177a-178a). Local 807 drivers had delivered merchandise to the stores in a fleet of trucks that was owned by Truck Fleets of New York, Inc., a wholly owned subsidiary of Bohack (178a). Approximately fifty per cent of the 37 acres of terminal property was used for Bohack's warehouse and distribution operation, and Bohack paid approximately one and one half million dollars for the carrying charges, maintenance and taxes on that portion of the terminal (179a-180a).

At the time the Chapter XI petition was filed, Manufacturers Hanover Trust Company had a lien on all

of the property of Bohack, including inventory (180a). Shortly after the filing of the petition, the bank released its lien on inventory for the purpose of inducing merchandisers to ship to Bohack's warehouse with the security of a letter of credit at Manufacturers. (181a-182a). At that time the grocery warehouse, which comprised about 300,000 square feet, was rapidly being emptied and Bohack was attempting to get bulk loads of merchandise into the grocery warehouse in an attempt to keep it operating (182a). Notwithstanding these efforts, suppliers were not giving Bohack credit and Bohack was essentially on a C.O.D. basis (183a).

At the direction of the Creditors' Committee, Bohack started to sell its unprofitable stores, so that at the time of the hearing of November 1975, the company was down to seventy-two stores (184a). The first significant closings took place in about November of 1974, 90 days after the filing of the petition, which closings reduced the volume in the warehouse to the extent that the warehouse began losing money at a rapid pace, creating a negative cash flow, and preventing Bohack from purchasing the merchandise on a C.O.D. basis that it needed to keep the sale volume up (184a-185a). At that point the Creditors' Committee mandated Bohack to dispose of the Terminal (185a-186a).

As the warehouses were becoming more of a drain on the company, the Brooklyn Savings Bank, the lead bank in a consortium which held the first mortgage on the Terminal, threatened foreclosure proceedings because of Bohack's default in payment of the mortgage and taxes (186a).

In December of 1974, the produce and dairy warehouse operations were closed down, and a supply agreement was entered into with Shopwell, Inc., which acted as Bohack's wholesaler for produce and dairy

(187a). When it became apparent that no credit was forthcoming from grocery manufacturers, the grocery warehouse was closed down in January of 1975, and two grocery suppliers, Filigree Foods in New Jersey and Bozzuto's, Inc. in Connecticut, were used to supply groceries (187a-188a). Prior to that time the 807 drivers had been picking up groceries from Bozzuto's, bringing them to the terminal, where other 807 drivers would then deliver the groceries to the stores. At that point the grocery warehouse was "out of stock" in the neighborhood of fifty to sixty percent of the net items and the store shelves were depleted as a result (190a).

Binder testified that in order to run a warehouse a chain must have sufficient volume to justify such operation, the costs of which are astronomical, and as Bohack closed its stores, the volume depleted to the point that Bohack, at the time of the November 1975 hearing had become a regional chain rather than a general supermarket chain (192a-193a). Prior to the filing of the petition, Bohack's volume was approximately \$300,000,000 a year. At the time of the 1975 hearing, the volume was no more than \$165,000,000 (193a).

When the first warehouses (produce and dairy) were closed, Bohack negotiated with Shopwell with respect to the transportation of the merchandise to be purchased by Shopwell. Bohack requested that its drivers be allowed to pick up merchandise from Shopwell, but Shopwell flatly refused, indicating "they had enough problems without getting involved with another union" (194a).

The specific offer made by Binder was that the Local 807 drivers would go to Shopwell with Bohack equipment, have Shopwell employees load the trailers, and have the Bohack drivers take the trailers out of the Shopwell warehouse, but such offer was refused (195a).

At the time that the grocery warehouse was closed in

January of 1975, the Local 807 drivers were picking up groceries from both Filigree and Bozzuto's. The cost of that operation was substantially higher than what it would normally cost a wholesaler to deliver directly to the store, and the use of the warehouse was becoming more and more expensive (196a-197a). As a result, the agreement with Bozzuto's was modified so that Bozzuto's drivers delivered to the terminal and the Local 807 drivers delivered to the stores (197a).

In April of 1975, Filigree filed its own Chapter XI petition and stopped delivering to Bohack (198a). Bohack entered into an agreement with Krasdale, located in the Bronx, and Krasdale refused to allow Local 807 drivers to pick up the merchandise as had been done with Filigree (199a).

Bohack had no choice but to enter into the agreement with Krasdale for merchandise delivered directly to the store, because Filigree had cancelled deliveries without notice and no other supplier was available, as Associated Foods had also filed a Chapter XI proceeding at about the same time (199a). Met Foods would not ship because of its discomfort with Bohack's financial situation and there were no other suppliers to deal with. Continued lack of delivery would have resulted in the closing down of the chain as the shelves of the stores were virtually empty and volume was rapidly decreasing and customers being lost (200a-201a).

Thereafter, changes were made because of Shopwell's price structure, and various other suppliers were used. At the time of the November 1975 hearing, Bozzuto's was supplying groceries, Krasdale was supplying dairy, Hills Supermarkets was supplying meat, produce and delicatessen and Global Frozen Foods, Inc. was supplying frozen foods. Manufacturers Hanover Trust Co., in an effort to support Bohack's attempts at rehabilitation,

reduced its inventory lien and issued Letters of Credit in the amount of \$1,500,000 which were given as security for the delivery from those companies (204a).

Subsequent to the commencement of the foreclosure proceedings on the terminal by the Brooklyn Savings Bank, corporate headquarters was moved to space over one of the Bohack stores in Little Neck, all warehouses were closed down and Bohack totally vacated the terminal except for some maintenance equipment and vehicles (205a).

Prior to the time of the filing of the petition Bohack, through Truck Fleets of New York, owned 236 pieces of trucking equipment (205a). At the time of the November, 1975 hearing, 64 pieces of equipment were being rented to Hills for the purpose of delivering produce, meat and delicatessen to Bohack stores by Hills, and 79 pieces were up for auction (206a). The others had been disposed of.

The rental payment on the trucks leased to Hills was the amount necessary for Bohack to pay off the notes on which Bohack was the guarantor to the manufacturers of the equipment (207a). At the time of the change-over to Hills, Mr. Binder asked Hills to use Bohack drivers to make the deliveries but was told by Hills that they had their own union problems and they would not allow Bohack drivers to make the deliveries (208a-209a). Bohack introduced exhibits at the November 1975 hearing (461a-463a) which tabulated the proposed savings by the elimination of the trucking and warehouse operations (216a-222a) which would result from the elimination of the contract directly, there would be an additional savings of between \$700,000.00 to \$1,000,000.00 that was currently being lost by the operation of the terminal by Bohack (223a-229a) so that the total anticipated yearly savings by closing down the warehouse and trucking operation would be approximately \$2,000,000 (229a). Mr. Binder

specifically testified that the warehouse and trucking operation was one operation that could not be separated (227a). The requests to the new suppliers to separate their operations so that Local 807 drivers would be able to deliver the merchandise to the Bohack stores were rejected by the suppliers (227a).

Mr. Binder further testified that a Plan of Arrangement was feasible but only if Bohack could operate as a retail chain, and buy from wholesalers operating by direct delivery to the stores; and that no Plan of Arrangement could be put together if Bohack were required to continue the warehouse and trucking operation (236a-237a).

Bohack was having severe financial difficulties because, apart from other inherent Chapter XI losses, it was not able to purchase the \$2,500,000.00 of merchandise per week it had to have in order to maintain its then current weekly sales volume of \$3,200,000.00 (232a).

Based on these uncontroverted facts, while the arbitration issue was pending before the Second Circuit, the Bankruptcy Court granted Bohack's application to reject the collective bargaining agreement because it was onerous and burdensome. That remand resulted in the two orders of the Bankruptcy Court referred to above.

REASONS FOR REFUSING TO GRANT LOCAL 807's WRIT

I

THE REJECTION OF THE LABOR CONTRACT AND TERMINATION OF ALL OPERATIONS BY THE DEBTOR, REQUIRES THAT ANY ARBITRATION BE CONDUCTED UNDER THE PROVISIONS OF THE BANKRUPTCY ACT.

In its 1976 remand to the Bankruptcy Court, the Court of Appeals merely directed it to determine whether there were arbitrable issues, and did not define any issues or, in fact, state that such issues existed. However, the Bankruptcy Court perceived the remand as direction by the Second Circuit to allow the arbitration and to subject any award arising therefrom to the scrutiny of the Bankruptcy Court. The ambiguity of the Second Circuit's opinion has, we submit, been resolved by *Allegaert v. Perot, et al*, 548 F.2d 432 (2d Cir., 1977).

It is Bohack's position that the contract was properly rejected on the uncontroverted facts presented before the Bankruptcy Court and, in the event that any claim for damages or any administrative claim that Local 807 might have, will be subject to the Bankruptcy Court's application of Section 64 of the Bankruptcy Act, which determines the priority of claims. If an arbitrator decides that there was a breach of contract, it would vitiate the uncontroverted findings of the Bankruptcy Court that there was a proper rejection. In *Local 455 v. Kevin Steel Products, Inc.*, 519 F.2d 698 (2d Cir., 1975); *Brotherhood of Railway, Airline and Steamship Clerks, etc. v. R.E.A. Express, Inc.*, 523 F.2d 164 (2d Cir., 1975), cert. den. 423 S.Ct. 1017, and *Local 807 v. Bohack*, 541 F.2d 12 (2d Cir.,

1976), the Second Circuit addressed the question of policy conflicts that exist between the Bankruptcy Act and the National Labor Relations Act. The result sought to be reviewed here is consistent with that series of cases. See *American Safety Equipment Corp. v. J.P. McGuire & Co.*, 391 F.2d 821 (2d Cir., 1968); *Wilko v. Swan*, 346 U.S. 427 (1953); cf. *L.O. Koven & Brother, Inc. v. Local U. No. 5767, United Steelworkers*, 381 F.2d 196 (3d Cir., 1967).

As the Third Circuit said in *Koven, supra*, at p. 205:

"In summary, we hold that questions involving an interpretation of the Bankruptcy Act should be decided by the court, while questions involving an interpretation of the collective bargaining agreement should be feasible be decided by the arbitrator, unless they involve special bankruptcy interests. If such interests are present, then the proper forum should be dictated by the needs of the particular case, and this is a matter best left with the discretion of the trial court. We find that no such interests are involved in the release issue, and hold therefore that it is arbitrable."

In this case, special bankruptcy interests are obviously present, and there is direct potential conflict involved in an arbitrator's finding that the contract was "breached" when the Bankruptcy Court has already found it was properly rejected, which rejection is as of July 30, 1974 as a matter of law, which decision was affirmed by the District Court and the Second Circuit.

As the Second Circuit recognized throughout its opinion in *Local 807 v. Bohack, supra*, a rejection is effective as of the date of the filing of the Chapter XI petition. There is ample opportunity in the Bankruptcy Court for Local 807 to be heard on the issue of their alleged damages which opportunity arises from their filing of claim number 2288, alleging a priority administration claim based on the alleged breach of contract. The Second

Circuit recognized implicitly in the *Kevin Steel* case that the rejection of an agreement would, in effect, moot many issues as to alleged breaches during the period of time after the filing of the petition. Thus, in *Kevin Steel*, the National Labor Relations Board had found violations of the National Labor Relations Act and had required the company to execute a contract submitted by the union and give it retroactive effect, as well as requiring the company to "make the employees whole for any loss of wages or other benefits suffered as a result of its failure to sign the agreement as to offer reinstatement to the unlawfully discharged employees." There the N.L.R.B. conceded that the effect of the enforcement of the Board's order remedying the violations was dependent upon the outcome of the company's application to reject the agreement (519 F.2d at p. 701).

It is respectfully submitted that here, as in that case, the rejection properly moots any potential award of specific performance that may be made by an arbitrator. Thus, were specific performance of a rejected contract is possible, and Section 64 of the Bankruptcy Act provides the appropriate means for determining any question of damages alleged by the union, the rejection of the contract eliminates any need or desirability for an arbitration hearing in which the ultimate questions of damages allegedly sustained must be reviewed by the Bankruptcy Court in any event.

II

AS A MATTER OF LAW, BOHACK DID NOT ASSUME, EITHER EXPRESSLY OR IMPLIEDLY THE AGREEMENT THAT WAS REJECTED.

Recognizing the right of Bohack to reject executory contracts, Local 807 argues that Bohack either expressly assumed or implicitly adopted the terms of the rejected collective bargaining agreement. We respectfully submit that, as a matter of law, no such assumption or adoption is possible without the explicit waiver of the right to reject in a Chapter XI proceeding.

The union's claim is essentially grounded in the holding of *In re Public Ledger, Inc.*, 161 F.2d 762 (3rd Cir., 1947) which was a Chapter X case and dealt with the implied assumption of the contract by the trustees in bankruptcy. The Court of Appeals noted there that the Bankruptcy Court clearly contemplated a quick reorganization and "continuance of the labor contract as the basis for the continued service of the employees," and thereby authorized the trustees to assume the contract (161 F.2d at 767).

In a Chapter XI proceeding, the debtor-in-possession may reject an executory contract under Section 313(1) of the Bankruptcy Act, Rule XI-53, or pursuant to Section 357(2), in the Plan of Arrangement itself. (11 U.S.C. 711 and 757).

It is our position that the inescapable conclusion to be drawn from that statutory scheme is that unless there is an explicit assumption of the contract or such action that would mislead the other party to the contract, a debtor-in-possession may not be charged with the assumption of the contract under the circumstances presented here. *The Bohack Corporation v. Staltac Associates, et al.*,

—F.Supp.—, 2 Bankr. Ct. Dec. 396 (E.D.N.Y., 1976), *Smith v. Hill*, 317 F.2d 539 (9th Cir., 1963); 8 *Collier on Bankruptcy*, 14th ed., ¶313(1) [6] at 204.

On one hand this union argues most strenuously that Bohack's actions since the filing of the original petition, pursuant to Chapter XI, constitute an express or implied assumption of the agreement; on the other hand it argues that Bohack's actions with respect to the agreement, since the filing of the petition, are the basis of a claim for breach of that contract subject to an arbitration award by an appropriate panel as set forth in the collective bargaining agreement. It is respectfully submitted that 807 cannot interpret the same facts so as to reach opposite conclusions simultaneously.

The very fact that a Plan of Arrangement, pursuant to Section 357(2) of the Bankruptcy Act, may provide for the rejection of any executory contract, is, we submit, ample grounds for holding that a debtor-in-possession has almost unlimited discretion as to when it may reject such a contract. See *The Bohack Corporation v. Stalac Associates, et al, supra*. There is an express distinction between a Chapter XI proceeding and straight bankruptcies under the Bankruptcy Act, in that a trustee in bankruptcy is expressly allowed sixty (60) days in which to either affirm or reject a contract unless that time is extended by the court under Section 70b of the Bankruptcy Act (11 U.S.C. 110b), and there is no time limit set in which a debtor-in-possession may take similar action. As indicated above, the two sections dealing with Chapter XI proceedings give a debtor-in-possession much more latitude in time to decide when in fact to reject the contract. In fact, under the new provisions dealing with Chapter X cases, the trustee has the same rights as a debtor in Chapter XI proceedings to reject executory contracts in a Plan of Reorganization. Bankruptcy Act,

§216, 11 U.S.C. 616. The facts in this case clearly indicate that there never was an assumption of the contract.

The Chapter XI proceeding has been pending since July 30, 1974, and during that period of time there have been constantly changing circumstances which have made it appropriate for Bohack to seek rejection of contracts under which it previously operated. Obviously, one of the most important circumstances governing collective bargaining agreements is the nature of the Bohack operation as a supermarket chain.

Both the size and scope of Bohack's operation were radically altered during the period of July 30, 1974 to July 18, 1975. During the period, the retail outlets of Bohack were reduced from approximately 140 to approximately 70. The warehouse and trucking operation which revolve around the terminal at Bohack Square were totally terminated, by virtue of Bohack's moving out of Bohack Square.

Each time a portion of the warehouse and trucking operation was discontinued, Bohack discharged Local 807 drivers by seeking accommodations to that effect with the various suppliers, but was unsuccessful in each instance. Of course, during that period of time it continued to pay each driver who remained in Bohack's employ the wages and fringe benefits he was making according to the terms of the collective bargaining agreement. The correct findings of fact in this regard by the Bankruptcy Court have twice been affirmed.

Section 357(2) of the Bankruptcy Act (11 U.S.C. 757(2)), in allowing rejection of executory contracts in a Plan of Arrangement contemplates the precise situation present here, where the debtor is a large corporation whose rehabilitation proceedings take an extensive period of time, and whose actions are subject to changing circumstances. *Bohack v. Staltac, supra; In re Miracle*

Mart, Inc., 396 F.2d 62 (2d Cir., 1968). There is no time limit contained in Sections 313(1) and 357(2) of the Act, and, indeed, the time within which a debtor may file an amended Plan of Arrangement is subject only to the equity jurisdiction of the Bankruptcy Court.

The Bankruptcy Court, as a court of equity, properly found that Bohack did not assume or adopt the contract by retaining as many of the 807 drivers as it could during each stage of the reduction in operations. *Brotherhood of Railroad, Airline and Steamship Clerks v. R.E.A. Express, Inc.*, *supra*.

The District Court, upon review of the record before it, found that the Bankruptcy Court's decision was not an abuse of its discretion, and was proper and supported by the uncontroverted evidence: Bankruptcy Act, Section 2a(10) (11 U.S.C. 11); Bankruptcy Rule 810; *Kolesinski v. Mashey*, 127 F.2d 528 (2d Cir., 1942); *Morris Plan Industrial Bank v. Henderson*, 131 F.2d 975 (2d Cir. 1942); *In re Ira Haupt & Co.*, 289 F. Supp. 966 (S.D.N.Y., 1968); *In the Matter of Scientific Resources Corporation*, 1 Bankr. Ct. Dec. 689 (E.D. Pa., 1975); 2A *Collier on Bankruptcy*, 14th Ed. ¶39.28; 13 *Collier on Bankruptcy*, 14th ed., ¶810.01 et seq.

III

THERE ARE NO ISSUES OF SIGNIFICANT PUBLIC IMPORTANCE TO WARRANT REVIEW BY THIS COURT

There are inevitably conflicts between various Federal policies as expressed in the statutes regulating areas of economic activity. The conflict between labor and bankruptcy policies is more apparent than real in this case. Petitioner has attempted to persuade this Court that the Second Circuit's opinions, permitting rejection of collective bargaining agreements, represents a departure from previous rules of law. In fact, these decisions are the only ones to interpret the new Bankruptcy Act. There is certainly no conflict with other circuits in respect of a Chapter XI debtor's right to reject contracts at any stage of a Chapter XI proceeding.

Moreover, the Bohack decision is not in conflict with the policy of arbitration, because what petitioner seeks is arbitration of a dispute, and specific enforcement of an award under a contract that has both expired and been rejected. Certainly, no consideration of stability in labor-management relations is present in such circumstances. The Second Circuit's opinions have set appropriate groundrules to insure that the Chapter XI proceedings will not be used as a cloak to legitimize an employer's getting rid of a union. In this case, Bohack's actions came squarely within those guidelines. There is no point in attempting to arbitrate a dispute under the dead contract at this point, and this Court is not faced with any important policy considerations, as none are inherent in such an attempt. Petitioner has the right to present its damage claim in the Bankruptcy proceedings. Given that forum, it does not have the right to insist that this Court

give it its choice of forums by compelling arbitration before a Teamsters Grievance Committee without review by the appropriate Courts, whose statutory authority is over all of the property and affairs of the debtor. Section 311 of the Bankruptcy Act (11 U.S.C. 711).

CONCLUSION

FOR THE FOREGOING REASONS, IT IS RESPECTFULLY SUBMITTED THAT THE PETITION OF LOCAL 807 FOR THE ISSUANCE OF A WRIT OF CERTIORARI BE DENIED

Respectfully submitted,

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APPENDIX A

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

74-B; 75-C-905; 75-C1191

TRUCK DRIVERS LOCAL UNION 807, etc.,
Plaintiff,

-against-

THE BOHACK CORPORATION,
Defendant.

In the Matter of the
BOHACK CORPORATION,
Debtor.

Memorandum of Decision and Order
November 19, 1975

MISHLER, CH. J.

A number of issues arising out of the decision of the Bohack Corporation (Bohack) to discontinue its warehouse and distribution terminal and terminate the employment of its drivers, members of Truck Drivers Union Local 807, International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America (Union), are presented to this court.

Bohack operates a chain of retail supermarkets throughout Brooklyn, Queens, Nassau, and Suffolk Counties. On July 30, 1974, Bohack filed a petition for arrangement under Chapter XI of the Bankruptcy Act. At the time of filing of the petition, Bohack had approximately 150 drivers. Bohack was and is in contractual relation with the Union under a labor agreement commencing on July 1, 1973 and expiring on March 31, 1976. The Union has represented Bohack's truck drivers for more than thirty years.

Elimination of the warehouse would result in a net saving of over \$500,000. The proposed plan of arrangement provided for a discontinuance of the warehouse and the termination of employment of its drivers. In approximately November, 1974, it started to purchase some of its merchandise directly from wholesale grocers. Some drivers were retained under arrangements where Bohack drivers picked the merchandise up at the vendor's place of business, and meat and meat products continued to be delivered from the warehouse until July, 1975. Some jobs were terminated in December, 1974, and all employment of the Union's 32 truck drivers terminated in July, 1975.

The labor agreement is in two parts: the National Master Freight Agreement (Master Agreement) and a Supplemental Agreement covering the New York-New Jersey area.

Article 8, Section 1(a) of the Master Agreement provides that "All factual grievances or questions of interpretation arising under the provisions of the Supplemental Agreement (or factual grievances under the National Master Agreement) shall be processed in accordance with the grievance procedure of the applicable Supplemental Agreement."

Section 1(b) of Article 8 provides that:

"Any matter which has been referred pursuant to Section 1(a) above, or any question concerning the interpretation of the pro-

visions contained in the Master Agreement shall be submitted to a permanent National Grievance Committee. . . ."

The Supplemental Agreement recognizes the authority of the National Grievance Committee to pass on the issue of interpretation of the contract (Article 45, Section 8). Article 46, Section 1(a), establishes the authority of the Joint Local Committee to determine disputes over the discharge of an employee.

On December 16, 1974, the Union served notice of arbitration before the New York City Joint Area Local Committee of the issue involving the subcontracting provision of the Master Agreement (Article 32).¹

The position of the Union as stated in its notice of arbitration is that:

"As of December 16, 1974, the Bohack Corporation is using employees of Daitch Shopwell to deliver dairy and bakery products from a Daitch Shopwell warehouse to Bohack stores with equipment owned by Fleet Services of New York, Inc., a wholly owned subsidiary of The Bohack Corporation."

The Joint Local Committee viewed the dispute as a jurisdictional dispute between the Union and locals whose members were employed by the wholesale grocers and were delivering merchandise to Bohack, and referred the matter to the Joint Council as an inter-local union dispute.

On May 12, 1975, the parties appeared before the Joint Local Committee.² The Joint Local Committee,

¹Article 32 is a covenant by the employer not to contract or assign work . . . "of the kind, nature or type covered by, presently performed, or hereafter assigned to the collective bargaining unit. . . ."

²Bohack claims it appeared without counsel to challenge the jurisdiction of the Joint Local Committee. The Union claims that Bohack ". . . argued the merits of their dispute."

noting that the parties appeared and testified, held that Bohack "is in violation of Article 32," and ordered Bohack to "... cease and desist, forthwith, from having its bargaining unit work subcontracted out which is violative of said Article."

On May 27, 1975, the Union instituted a proceeding for confirmation of the arbitration award in New York State Supreme Court, Queens County. That proceeding was removed to this court on Bohack's petition.

The Union was advised that Bohack did not intend to abide by the terms of the arbitration. On June 30, 1975, the Union placed picket lines at Bohack's terminal and sixteen of its retail supermarkets. On the same day, Bohack made application for a temporary restraining order before Bankruptcy Judge Parente. After an evidentiary hearing, Judge Parente made the following findings:

- (1) That arbitration was not authorized as required by section 26 of the Bankruptcy Act (11 U.S.C. §49), and that the arbitration award was null and void and of no effect;
- (2) That if the strike continued, Bohack would suffer irreparable harm; and
- (3) That the Union had agreed not to strike under the circumstances.

On June 30, 1975, at the conclusion of the hearing Judge Parente signed a temporary restraining order restraining the Union from picketing.

On July 16, 1975, Judge Parente signed an order enjoining the Union from picketing or striking "during the pendency of this action."

On July 18, 1975, Judge Parente signed an order directing the Union to show cause why Bohack should not be permitted to reject the labor contract. The motion was returnable on July 25, 1975. The hearing was adjourned by stipulation to await the decision of the Court of Ap-

peals in *Shopmen's Local Union No. 455, International Association of Bridge Structural and Ornamental Iron Workers, AFL-CIO v. Kevin Steel Products, Inc.*³

Proceedings Pending in this Court

(1) The proceeding to confirm the arbitration award (removed from New York Supreme Court, Queens County);

(2) An action by the Union pursuant to Section 301(a) of N.L.R.A., 29 U.S.C. §185(a), to compel Bohack "... to specifically perform its collective bargaining agreement with plaintiff and to submit any grievances between them to the grievance procedure;"⁴ and

(3) An appeal from Judge Parente's order dated July 16, 1975, enjoining the Union from striking or picketing.

Lack of Authority to Arbitrate Labor Disputes

Bohack challenges the validity of the arbitration award on the ground that as debtor in possession, it lacked authority to proceed to arbitration without permission of the court. Section 26(a) of the Bankruptcy Act, 11 U.S.C. §49(a).⁵ The Union, relying on *Tobin v. Plein*, 301 F.2d

⁵19 F.2d 698 (2d Cir. 1975). The Union moved to stay the hearing on the petition to reject the labor contract. The motion was resolved by stipulation to continue the hearing if appropriate under *Kevin Steel*. The court directed the hearing to proceed in the Bankruptcy Court.

⁴The complaint claims violation of the covenant against subcontracting, the validity of the arbitration award, and the invalidity of the preliminary injunction order. Bohack's answer incorporates a counterclaim seeking arbitration upon authorization of the Bankruptcy Court pursuant to Rule 919(b) of the Bankruptcy Rules (formerly section 26 of the Bankruptcy Act, 11 U.S.C. §49).

³Section 26(a) provides:

The receiver of trustee may, pursuant to the direction of the

378 (2d Cir. 1962) argues that such authorization is unnecessary where as here the labor contract executed prior to the filing of the petition, contained the grievance procedure and arbitration clause.⁶

The court finds that reliance on *Tobin v. Plein* is misplaced for there authorization was sought by the trustee and granted, and the issue before the court was whether the arbitration machinery provided by contract or by the general order should be employed.

In re Muskegon Motor Specialties Company, 313 F.2d 841 (6th Cir. 1963), presented the court with the issue presented here.⁷ The court found that the rights of the

court, submit to arbitration any controversy arising in the settlement of the estate.

Bankruptcy Rule 919(b) which supersedes section 26(a) provides:

On stipulation of the parties to any controversy affecting the estate the court may authorize the matter to be submitted to final and binding arbitration.

⁶In *Tobin v. Plein*, *supra*, the trustee made application to arbitrate a dispute which occurred before the filing of the petition pursuant to an arbitration clause in the contract out of which the dispute arose. The trustee moved to vacate the order of authorization claiming the contract was rejected by his failure to affirm within 60 days as provided in section 70(b) of the Bankruptcy Act, 11 U.S.C. §110(b). The trustee argued that arbitration in any event must be conducted under the procedures set forth under General Order 33. The court said at page 381:

These provisions specify the procedure to be followed for the arbitration of controversies arising in the settlement of the estate. But this section is clearly drawn to provide arbitration machinery where no contractual arrangements exist. It does not supersede explicit contractual provisions.

⁷ In *Muskegon*, a division of the debtor went out of business and terminated the employees of the division. The union brought an action in the district court to compel arbitration. Subsequent to filing the suit, Muskegon filed a petition under Chapter XI of the Bankruptcy Act (converted to a Chapter X proceeding). The union argued, as does

employees were fixed and a question of law remained which could better be passed on by the court (at page 843). The court said:

The reorganization court had "exclusive jurisdiction of the debtor and its property wherever located." 11 U.S.C. §511 . . . [T]he court had all the powers of a bankruptcy court . . . and of a court of equity. 11 U.S.C. §§514, 516 . . . The bankruptcy court does not ordinarily surrender its jurisdiction except under exceptional circumstances. *Magnus v. Miller*, 317 U.S. 178, 186, 63 S.Ct. 182, 87 L.Ed. 169. Whether the bankruptcy court should surrender its jurisdiction to another tribunal involved the exercise of judicial discretion. *Thompson v. Magnolia Petroleum Co.*, 309 U.S. 478, 483, 60 S.Ct. 628, 84 L.Ed. 876. 313 F.2d at 842.

In *Johnson v. England*,⁸ 356 F.2d 44 (9th Cir. 1966), the court in denying arbitration under a labor agreement held:

A decision of an arbitrator here would involve interests of parties who never consented to arbitration, namely, the trustee in bankruptcy and the general creditors. They ought not to be bound by the decision of an arbitrator selected by the employer and union. The issues here are within the special competence of a bankruptcy court. 356 F.2d at 51.

the Union here, that federal policy favored arbitration of labor disputes, *United Steel Workers of America v. American Manufacturing Co.*, 363 U.S. 564, 80 S.Ct. 1343 (1960), *United Steel Workers of America v. Enterprize Wheel and Car Corp.*, 363 U.S. 593, 80 S.Ct. 1358 (1960), *United Steel Workers of America v. Warrior & Gulf Navigation Co.*, 363 U.S. 574, 80 S.Ct. 1347 (1960).

⁸In *Johnson v. England*, *supra*, the union commenced a proceeding in the state court to compel arbitration of a labor dispute. Subsequently, the employer filed a voluntary petition in bankruptcy. The arbitration proceeding was removed to the district court. The court pointed out that the employer had ceased to do business.

The teaching in *Kevin Steel*⁹ is instructive. The court found no irreconcilable conflict between the policy of the Bankruptcy Act in preserving the funds of the debtor and to give the debtor a new start on the one hand, and that of the National Labor Relations Act encouraging the creation and enforcement of collective bargaining agreements (519 F.2d at p. 706). This court finds no irreconcilable conflict between the Bankruptcy Act and the strong federal policy favoring the arbitration of labor disputes.

The Bankruptcy Judge should first pass on the advisability of retaining jurisdiction of a dispute affecting the proceeding before him. Rule 919(b) requires authorization of the Bankruptcy Court regarding the resolution of claims affecting the estate. Upon filing of the petition Bohack became a new entity "with its own rights and duties subject to the supervision of the bankruptcy court. . . . Until the debtor . . . assumes the old agreement or makes a new one it is not a "party" under section 8(d) to any labor agreement with the union . . ." *Kevin Steel*, 519 F.2d at 704.

The motion to confirm the award of the Joint Local Committee¹⁰ is denied.

JURISDICTION OF THE BANKRUPTCY COURT OVER LABOR DISPUTES

The National Labor Relations Act was a comprehensive plan of the Congress designed to promote

⁹ The same result was reached by another panel of the Second Circuit Court of Appeals in *Brotherhood of Railway, Airline and Steamship Clerks et al. v. REA Express et al.*, Nos. 75-5007 and 75-5008 (2d Cir. Aug. 27, 1975).

¹⁰It is apparent that the grievance as presented to the Joint Local Committee was a matter outside its jurisdiction and the proceedings upon which it was based, a nullity.

industrial peace through voluntary collective bargaining agreements, *Vaca v. Sipes*, 386 U.S. 171, 87 S.Ct. 903 (1967). The Congress granted the National Labor Relations Board (Board) primary and exclusive jurisdiction over claims of unfair labor practices. *International Brotherhood of Boilermakers, etc. v. Hardeman*, 401 U.S. 233, 91 S.Ct. 609 (1971), *Carpenters District Council etc. v. United Contractors Ass'n of Ohio*, 484 F.2d 119 (6 Cir. 1973). The Union's claim was both an allegation of a breach of the labor agreement (Article 32) subject to determination under the appropriate grievance and arbitration procedure and of an unfair labor practice (29 U.S.C. §158((e)) of which the Board has primary and exclusive jurisdiction. The Supreme Court said in *N.L.R.B. v. Strong*, 393 U.S. 357, 89 S.Ct. 541 (1969):

. . . [T]he business of the Board, among other things, is to adjudicate and remedy unfair labor practices. Its authority to do so is not "affected by any other means of adjustment or prevention that has been or may be established by agreement, law, or otherwise. . . ." §10(a), 61 Stat., 146, 29 U.S.C. §160(a). Hence, it has been made clear that in some circumstances the authority of the Board and the law of contract are overlapping, concurrent regimes, neither pre-empting the other (citations omitted). Arbitrators and the courts are still the principal sources of contract interpretation (footnote omitted), but the Board may proscribe conduct which is an unfair labor practice even though it is also a breach of contract remediable as such by arbitration and in the courts (citation omitted). It may also, if necessary to adjudicate an unfair labor practice, interpret and give effect to the terms of a collective bargaining agreement (citation omitted). 393 U.S. at 3670-61, 89 S.Ct. 541, 544-45.

The role of the court is to preserve the status quo in a matter before the Board if the officer or regional attorney "has reasonable cause to believe the charge is true and that a complaint should issue . . .," Section 10(1) of the Act, 29 U.S.C. §160(1), or compel arbitration if the issue

is arbitrable under the agreement or otherwise require specific performance of the agreement. Section 301(a) of the Act, 11 U.S.C. §185(a). Jurisdiction to grant injunctive relief is solely in the district court.

The Bankruptcy Court does not have jurisdiction over labor disputes. The preliminary injunction order of July 16, 1975, is reversed.

SUMMARY

It is ORDERED

(1) The preliminary injunction order is vacated.¹¹

(2) The petition (in the form of an affidavit) to confirm the arbitrator's award is dismissed (Docket No. 75-C-905). The Clerk is directed to enter judgment in favor of Bohack and against the Union dismissing the petition.

(3) The issue of the advisability of granting the debtor leave to arbitrate is remanded to the Bankruptcy Court for proceedings consistent with this opinion.

s/Jacob G. Mischler
U.S.D.J.

¹¹This court will hear Bohack's motion for a preliminary injunction made under docket no. 75-C-1191 on November 26, 1975 at 10:00 a.m. The court has this day signed a temporary restraining order pending determination of that motion.